

PX 36

1 UNITED STATES SECURITIES AND EXCHANGE COMMISSION

2
3 In the Matter of:)

4) File No. NY-09875-A

5 RIPPLE LABS, INC.)

6
7 WITNESS: Bradley Kent Garlinghouse, Jr.

8 PAGES: 1 through 256

9 PLACE: Securities and Exchange Commission

10 100 F Street, N.E.

11 Washington, D.C. 20549

12 DATE: Thursday, September 10, 2020

13
14 The above-entitled matter came on for hearing via
15 Webex, pursuant to notice, at 9:03 a.m.

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23
24 Diversified Reporting Services, Inc.

25 (202) 467-9200

1 APPEARANCES:

2
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C O N T E N T S

WITNESS: EXAMINATION

Bradley Kent Garlinghouse, Jr. 6

EXHIBITS: DESCRIPTION IDENTIFIED

132 WU_RIPPLE_0007414 - 7416 170

133 MONEYGRAM_SEC_0012111 - 12140 236

134 MONEYGRAM_SEC_0000002 - 0000069 136

137 Live_tapes_20200824_Session 1_Update 1 193

CNBC

141 Live_tapes_20200824_Session 8 Digital 177

Ventures Video

143 Live_tapes_20200824_Session 10 CNN 189

Interview February 17, 2020

144 Live_tapes_20200824_Session 11 South 182

Korean Interview

146 Live_tapes_20200824_Session 14 CNBC Fast 212

Money, March 7, 2018

148 Screenshot of Bloomberg interview 155

158 Live_tapes_20200824_Session 25 174

160 Live_tapes_20200824_Session 27 165

175 RPLI_SEC 0287878 - 7897 246

176 RPLI_SEC 0099463 - 9490 248

198 RPLI_SEC 0056445 - 446 214

C O N T E N T S (CONT.)

EXHIBITS:	DESCRIPTION	IDENTIFIED
203	RPLI_SEC 0026844	221
221	RPLI_SEC 0069806 - 812	203
224	PowerPoint entitled xRapid Deep Dive, Q4 1027	200
229	RPLI_SEC 0221467 - 1470	227
239	RPLI_SEC 0236083 - 085	205
246	Slide Deck	237
254	Background Questionnaire	9

P R O C E E D I N G S

MS. WAXMAN: We are on record on September 10th, 2020 at 9:03 a.m.

Mr. Garlinghouse, will you please raise your right hand?

Whereupon,

BRADLEY KENT GARLINGHOUSE, JR.
was called as a witness and, having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY MS. WAXMAN:

Q Please state your full name and spell your name for the record.

A Full legal name is Bradley Kent Garlinghouse, Jr., B-r-a-d-l-e-y, K-e-n-t, G-a-r-l-i-n-g-h-o-u-s-e, Jr., J-r.

Q Good morning.

A Good morning.

Q My name is Daphna Waxman and with me are colleagues Jon Daniels, John Enright and Jorge Tenreiro, all of whom are officers of the Commission for the purpose of this proceeding. This is an investigation by the United States Securities & Exchange Commission In the Matter of Ripple Labs, NY-9875.

The purpose of the investigation is to

1 determine whether there have been violations of the
2 federal securities laws. However, facts developed in
3 this investigation may constitute violations of other
4 federal or state civil or criminal laws.

5 Prior to the opening of the record, you were
6 provided with a copy of the formal order of investigation
7 in this matter. It will be available for your
8 examination during the course of this proceeding.

9 Mr. Garlinghouse, have you had an opportunity
10 to review the formal order?

11 A Yes, I have.

12 Q Do you have any questions regarding the formal
13 order?

14 A No, I do not.

15 Q Prior to the opening of the record, you were
16 also provided a copy of the SEC Form 1662.

17 Mr. Garlinghouse, have you had an opportunity
18 to review the Form 1662?

19 A Yes, I have.

20 Q Do you have any questions regarding this
21 notice?

22 A No, I do not.

23 Q Mr. Garlinghouse, are you represented by
24 counsel here today?

25 A I am.

1 MS. WAXMAN: Would counsel please identify
2 themselves for the record, state who you represent, your
3 firm's name, your location and whether you're
4 participating by video or by phone.

5 MR. SOLOMON: Sure. Matthew Solomon from
6 Cleary Gotlieb Steen & Hamilton. We represent Mr.
7 Garlinghouse in his personal capacity, and Nicole Tatz,
8 T-a-t-z, my colleague from Cleary, is on video here in
9 Washington, D.C. I am in New York City with Mr.
10 Garlinghouse.

11 MR. CERESNEY: Andrew Ceresney and my
12 colleagues Joy Guo and Jen Cowan. I and Joy are in the
13 conference room with Mr. Garlinghouse in New York City.
14 Jen Cowan is in her apartment in New York City. We are
15 from Debevoise & Plimpton. We represent Ripple, the
16 company, as well as Mr. Garlinghouse personally.

17 And also I'll identify Mr. [REDACTED]
18 [REDACTED] general counsel of Ripple, is here in the
19 conference room in New York City with Mr. Garlinghouse.

20 MS. WAXMAN: Is there anyone else who is
21 participating today either by video or by phone?

22 Okay. And Matt, just to clarify, are you in a
23 conference room in New York City with Mr. Garlinghouse?

24 MR. SOLOMON: Yes, I am.

25 MS. WAXMAN: And also with attorneys from

1 Debevoise?

2 MR. SOLOMON: That's correct, and [REDACTED]

3 There are five of us here.

4 MS. WAXMAN: In New York City?

5 MR. SOLOMON: Correct.

6 MS. WAXMAN: In Debevoise's offices?

7 MR. SOLOMON: No. We're at Ripple's offices in
8 Chelsea.

9 MS. WAXMAN: Okay. Got it. Thank you.

10 BY MS. WAXMAN:

11 Q Mr. Garlinghouse, as you may be aware, multiple
12 representation of witnesses by counsel presents a
13 potential conflict of interest, and the Form 1662 states
14 that the Commission will assume that the witness and
15 counsel have discussed and resolved all issues concerning
16 possible conflicts.

17 A Understood.

18 (SEC Exhibit No. 254 was marked for
19 identification.)

20 Q I'm going to share my screen and provide you
21 with the background questionnaire which we have marked as
22 Exhibit 254. I don't have a printed copy because I
23 received it late the other day and we didn't have enough
24 time to send it to the printer. So give me a minute and
25 I will share it with you, share my screen with you.

1 A Okay. Sounds good.

2 MR. CERESNEY: Just give us one moment. We
3 just want to arrange, make sure that Mr. Garlinghouse has
4 the appropriate copy.

5 MS. WAXMAN: Sure.

6 MR. CERESNEY: We have a sealed box.

7 THE WITNESS: We have not opened this.

8 BY MS. WAXMAN:

9 Q No, don't open that. We're not going to open
10 that until the evening.

11 I received -- I don't even remember, maybe it
12 was late yesterday or maybe the day before -- a completed
13 background questionnaire.

14 A Yes.

15 Q And I couldn't -- it was too late for us to
16 send to our copier vendor. It was too late to put it --
17 to prelabel and put it in the binder of exhibits that
18 were -- the exhibits that were sent by PDF.

19 A No problem. I will review it on the screen as
20 you share it.

21 Q Sure. So I just wanted to clarify where this
22 document fits into the scheme of things. Do you have a
23 binder of documents that have been prelabeled?

24 A (Indicating.)

25 Q Perfect.

1 A Sorry. To acknowledge verbally, yes, I do.

2 Q Okay. Thank you.

3 Can everyone see my screen?

4 A Yes. Well, I can. I won't speak for everyone.

5 Q Okay. So I've been showing you what's been
6 marked as Exhibit 254. Mr. Garlinghouse, do you
7 recognize what's been marked as 254? And on the first
8 page, it says Background Questionnaire, and I can scroll
9 down. It's a total of 12 pages.

10 A Yes, I do see that.

11 Q And is this the background questionnaire that
12 you completed?

13 A Yes, it is.

14 Q Is everything that you provided accurate in the
15 questionnaire?

16 A Yes, it is.

17 Q Do you have any additional -- some of the
18 answers are incomplete. Do you have any additional
19 information that you want to add today?

20 A I'm happy to answer any other further questions
21 about it.

22 Q Okay. I think we'll hold on for now. I just
23 wanted to mark it as an exhibit. And now I'm going to
24 stop sharing my screen.

25 Mr. Garlinghouse, can you just provide me with

1 a brief background of your educational history?

2 A Sure. For -- starting with undergraduate work,
3 I actually my freshman year went to Georgetown
4 University, transferred to the University of Kansas for
5 my sophomore, junior, senior, graduated from the
6 University of Kansas in 1994 with a bachelor of arts in
7 economics. I attended Harvard Business School and
8 graduated with my masters in business administration in
9 1997.

10 Q And can you provide a brief history of your
11 employment since graduating from graduate school?

12 A Of course. My first job out of graduate school
13 was with a company called the Home Network. I left the
14 Home Network to join an investment group called CMGI
15 Ventures. From there I became CEO of a voice over IP
16 startup called Dialpad. Dialpad was acquired by Yahoo.
17 I worked at Yahoo for about six years in a range of
18 positions.

19 I left Yahoo in 2008 and joined an investment
20 firm called Silver Lake Partners. I was at Silver Lake
21 for approximately one year and then joined AOL for about
22 three years. And then I was CEO of another startup
23 called YouSendIt, changed its name to Hightail, and then
24 I joined Ripple.

25 Q Okay. I just want to make sure I got that.

1 When did you join the company that merged with -- that
2 was bought by Yahoo?

3 A I joined Dialpad in 2000.

4 Q And what was your role?

5 A CEO.

6 Q And what was Dialpad's business at the time
7 that you joined?

8 A Dialpad was an early pioneer in voice over IP
9 technologies. You can simplistically consider it a
10 precursor to Skype.

11 Q And when Yahoo acquired Dialpad, did you assume
12 the same role that you had when you joined?

13 A I'm not sure I understand that question.

14 Q Well, did your responsibilities change when
15 Yahoo acquired Dialpad?

16 A Yes. At Yahoo, I had a broader mandate running
17 their -- well, when I first joined Yahoo, I was
18 responsible for what we called the communication
19 products, which included Dialpad but it also included
20 Yahoo Mail, Yahoo Messenger, some other things I'm sure
21 I'm forgetting, Yahoo Groups. My career progression at
22 Yahoo ultimately included the Yahoo home page, Flickr.
23 I'm probably forgetting some other things.

24 Q But generally what were your responsibilities
25 with respect to all those products?

1 A Apologies. My response -- I was effectively
2 the general manager of the group at Yahoo responsible for
3 those products, from both an operations as well as P&L,
4 profit and loss.

5 Q Were those products profitable for Yahoo?

6 A Yes.

7 Q Were they profitable during your entire time
8 that you were in that role?

9 A Honestly, I don't know that I remember the
10 first year or two but certainly the last four years.

11 Q And how did it happen that you left Yahoo and
12 joined Silver Lake Partners?

13 A Yahoo had had an acquisition offer from
14 Microsoft which, frankly, caused all kinds of turmoil,
15 and myself and a number of other leaders left at that
16 time when Yahoo decided not to take the Microsoft
17 acquisition offer. And I announced my departure in the
18 summer of 2007 but left in Q1 of 2008.

19 Q And what role did you take at Silver Lake?

20 A My title was senior advisor. I've -- in
21 Silicon Valley parlance, I would have called it
22 entrepreneur in residence.

23 Q What does that mean? What were your
24 responsibilities at Silver Lake?

25 A Silver Lake, as you may know, is a large

1 technology, mostly buyouts and -- well, buyouts, and the
2 thesis was that Silver Lake might buy something that I
3 would end up running. So I was an advisor to them, as
4 when I joined they had not done any investments in the
5 Internet space. And so I was an advisor on a number of
6 deals they were looking at and the thesis was that
7 perhaps they would buy something, I would end up running
8 it. Ultimately obviously I left to join AOL as part of
9 the team there that spun out of Time-Warner.

10 Q Did Silver Lake buy any of the deals that you
11 were advising on while you were at Silver Lake?

12 A Yes.

13 Q Which one?

14 A Skype was probably the biggest one. I mean,
15 advising of course is a loose word so there may have been
16 some other deals they consummated while I was there that
17 I may have had meetings about, but Skype would have been
18 the most consequential one.

19 Q And what sorts of advisory services did you
20 provide on the Skype deal?

21 A I was an -- I mean, the Silver Lake team had
22 very few people who had worked in the Internet space, and
23 so I advised them on how my experience with
24 Internet-based business models, whether it's
25 subscriptions, advertising, customer acquisition, even to

1 some degree technology and operations.

2 Q Were there any deals that Silver Lake acquired
3 other than Skype that you advised on?

4 A I can't recall.

5 Q How did it happen that you joined AOL?

6 A A gentleman named [REDACTED] called me and
7 recruited me to join the team at AOL.

8 Q And when was that?

9 A Q4 2008, I believe.

10 Q And what did he say when he called?

11 A I don't recall.

12 Q And what position did you take at AOL?

13 A My title was president of consumer
14 applications.

15 Q And what were your responsibilities?

16 A I was the general manager of a host of
17 different products similar in many ways to the product
18 suite was responsible for at Yahoo.

19 Q And as manager, what were your general
20 responsibilities?

21 A I was responsible for -- I was ultimately
22 responsible for product strategy, product development,
23 P&L.

24 Q Anything else?

25 A I think that encompasses all of it.

1 Q And when did you leave AOL to join YouSendIt?

2 A 2012. I think 2012.

3 Q And why did you leave AOL?

4 A I was tired of commuting back and forth across
5 the country.

6 Q Where were you commuting?

7 A I have spent basically all of the last 23 years
8 in the San Francisco Bay area. As you may know, AOL is
9 headquartered in New York City.

10 Q Were there any other reasons that you left AOL
11 besides the commuting issue?

12 A I probably lost some confidence in the
13 direction the company was going.

14 Q Why did you lose confidence in the direction of
15 the company?

16 A Yeah, I think any -- there is a famous Warren
17 Buffett saying that most turnarounds don't turn, and I
18 think in order to pursue a project like AOL at that stage
19 in its revolution, you have to have the confidence and
20 belief that you can turn it around. And after two and a
21 half years of pursuing that endeavor and traveling across
22 the country at some personal expense, I decided that my
23 time and energy might be best applied somewhere else.

24 Q When you say -- what are you referring to when
25 you say turn it around?

1 A Well, AOL at that stage of its evolution, you
2 know, as you're probably familiar, America Online, AOL,
3 had started as a dial-up Internet service and its
4 business had -- you know, that part of the business
5 certainly was contracting, and AOL had sought to grow its
6 business in more of a traditional online media framework
7 analogous frankly to Yahoo, I think.

8 And when I described turnaround, I'm thinking
9 about a contracting business in hopes of investing in and
10 growing a new business to yield growth in the overall
11 business.

12 Q You said earlier that after AOL, you joined
13 YouSendIt as CEO. Does YouSendIt still exist?

14 A I actually don't know the answer to that.

15 Q What was it at the time that you joined?

16 A YouSendIt was a file management service. The
17 name described it aptly. Particularly at that time, it
18 was very difficult to send and manage and share securely
19 large files. Actually, I don't know the service that the
20 SEC uses but I know that you use some service to share
21 files with us. It would have been similar to that.

22 Q We use Accellion formerly known as Kiteworks.

23 A So YouSendIt was a competitor in that space.
24 It was ultimately acquired after I left. I can't
25 remember by whom right now.

1 Q And how did it happen that you became CEO of
2 that company?

3 A I was recruited by the board of directors.

4 Q And what were your responsibilities as CEO of
5 YouSendIt?

6 A I was responsible for the strategy, operations,
7 profitability, overall success and execution of the
8 company.

9 Q When you joined YouSendIt, how large a company
10 was it?

11 A As measured by what?

12 Q How many employees did it have?

13 A It had about 200 employees as I recall.

14 Q Did it have any operating products?

15 A Yes. The file sharing product was live.

16 Q Was it in beta? Was it commercially -- was it
17 in commercial use?

18 A It was in commercial use.

19 Q At the time that you joined was the company
20 generating revenues?

21 A Yes.

22 Q And what were the company's revenues
23 approximately?

24 A I don't remember. If I were to hazard a guess,
25 somewhere in the \$20 million range.

1 Q So was the company profitable?

2 A No.

3 Q Why not?

4 A Because the expenses associated with the
5 operations of the business were larger than the revenues.

6 Q At any point while you were employed by
7 YouSendIt, did the company become profitable?

8 A No.

9 Q Did you have an understanding what were some of
10 the obstacles that YouSendIt faced while you were CEO in
11 terms of profitability?

12 A Yes.

13 Q What were they?

14 A YouSendIt started as what I think would
15 generally be described as a Freemium -- well, a free
16 service to manage files online, which migrated to a
17 Freemium which generally describes using a free product
18 to acquire customers to get customers -- I shouldn't call
19 it customers -- to get users to register that then the
20 company sought to upgrade to a paid product which had
21 more features and capabilities than the free product.
22 And so the company was introducing subscription products
23 layered on top of those free products that, as I
24 described earlier, are often described as a Freemium
25 revenue or Freemium business model.

1 Q So was that an obstacle that the company faced
2 in terms of its profitability at the end of the day?

3 A Yes. The costs of operating a Freemium
4 service -- it's free and there's costs associated with
5 it, and the goal of course is to achieve enough scale to
6 sign up enough paid users to more than cover the costs of
7 the Freemium service.

8 Q While you were CEO of YouSendIt, were you
9 involved in certain strategies to get -- to enable the
10 company to become profitable?

11 A Yes.

12 Q What were some of the things that you were
13 involved with that were aimed to earn a profit?

14 A I would say that there were two macro
15 strategies. One was simply to grow revenue by expanding
16 up-market, meaning going from free to premium consumers
17 to corporate enterprise sales and expanding the book of
18 business around corporations, having things like a site
19 license, again, not that dissimilar to Accellion selling
20 into the SEC.

21 And also the other macro strategy to help
22 achieve profitability would have been to manage costs
23 carefully and grow costs in line with a budget as
24 approved by the board of directors with the goal of
25 achieving a profit.

1 Q These things that you just described, had you
2 done these in your prior employments at Yahoo and at
3 Dialpad?

4 A Yes.

5 Q So did you have experience helping smaller
6 companies grow their business?

7 A Yes.

8 Q You said that YouSendIt, while you were there,
9 didn't earn a profit, correct?

10 A That is correct.

11 Q When did you leave YouSendIt?

12 A The fall of 2014.

13 Q And why did you leave?

14 A I disagreed with the -- well, we had an offer
15 to acquire the company. The board decided not to take
16 that offer to sell the company, and I decided that the
17 company would be best to have a CEO who is more excited
18 about the future of the business.

19 Q Were you not excited about the business at or
20 around the time you left?

21 A No, I was not.

22 Q Why not?

23 A Online file sharing and management is a
24 commodity business with many competitors ranging from, at
25 that time, Box and Dropbox, but certainly bigger players

1 like Google and Microsoft have entered that space and
2 made it a commoditized segment with, in my judgment, very
3 difficult to make money.

4 Q Was there something specific about YouSendIt
5 that was discouraging? I understand that the business
6 was -- I understand what you just explained with respect
7 to file sharing and some of the obstacles for adoption
8 but is there something specific about YouSendIt that
9 was -- in your words, you weren't excited about?

10 A No.

11 Q So it was just related to the company's
12 business and products?

13 A I believe that -- I believe now and I believed
14 then that the macro market opportunity around file
15 sharing was challenged for small, independent companies
16 given where larger companies like Google and Microsoft
17 were headed.

18 Q What did you do when you left YouSendIt?

19 A I drove an Uber.

20 Q And why did you choose to drive an Uber after
21 YouSendIt despite having a very long professional career
22 before YouSendIt?

23 A I thought it would be fun.

24 Q Any other reason?

25 A I was bored.

1 Q Did you have any other prospects at the time
2 other than, you know, driving an Uber?

3 A I wasn't looking for a job at that point.

4 Q Why not?

5 A I wanted to take a break.

6 Q Was YouSendIt particularly stressful that you
7 needed a break? Why did you need a break?

8 A I felt like I had been doing the Silicon Valley
9 grind for a decade or two and wanted to take some time
10 off.

11 Q You described it as a grind. What do you mean?

12 A I use that term loosely as there was a coffee
13 shop downstairs called The Daily Grind. I use the term
14 loosely that all of us in our own respective ways show up
15 for work, and I use the term loosely as just a reflection
16 of work commitments.

17 Q Were you disenchanted with Silicon Valley
18 itself or some of the companies in Silicon Valley?

19 A Not particularly.

20 Q And how long did you drive an Uber for?

21 A Just a month.

22 Q Why just a month?

23 A I was doing it for fun and just decided that I
24 had had enough fun.

25 Q So you stopped on your own?

1 A That's correct.

2 Q How did it happen that you began your
3 employment with Ripple?

4 A I received a recruiting call from an outside
5 recruiter asking me if I would be interested in talking
6 to Ripple about a position as COO.

7 Q Had you heard of the company before that call?

8 A No.

9 Q What did the recruiter tell you about the
10 company, if you recall?

11 A I don't really recall exactly.

12 Q Did you do any independent research about
13 Ripple at the time?

14 A Not before taking a meeting with Chris Larsen.

15 Q And when did you meet with Chris?

16 A Some sometime at the end of 2014 or beginning
17 of 2015. I don't remember exactly but I would guess
18 January or February of 2015.

19 Q And who is Chris Larsen?

20 A Chris Larsen is one of the cofounders of Ripple
21 and at the time, the CEO of Ripple.

22 Q And what did Chris tell you at your meeting,
23 your initial meeting with him?

24 A We spent some time getting to know each other.
25 Despite both of us having done things in Silicon Valley

1 in entrepreneurial ways for a couple of decades, we had
2 not met, and he described a vision for what an Internet
3 of value might look like and how Ripple's role in that
4 might be catalyzed and impact the growth of an Internet
5 of value.

6 Q What did he tell you -- did you understand at
7 the time what he meant by Ripple's role in the Internet
8 of value?

9 A No.

10 Q Did you eventually become to learn what he
11 meant?

12 A I don't know that he or I knew exactly what
13 that could mean or would mean. I think the nature of
14 entrepreneurial endeavors, particularly in the technology
15 industry, you often have a vision or view of what the
16 future might look like and then you work to build
17 products and services to help catalyze that outcome.

18 Q At the time that you had this initial
19 conversation or meeting with Chris, did the company have
20 any products?

21 A Yes.

22 Q Did you discuss them with Chris?

23 A I doubt that we did at that meeting.

24 Q And where did that meeting take place?

25 A I believe it took place at Ripple's offices.

1 Q And was that in San Francisco?

2 A Yes.

3 Q Was anyone else present at the meeting?

4 A No. I met some other people as I arrived and
5 departed, but no, that was just a meeting with Chris.

6 Q And during the meeting, did you discuss the
7 digital token XRP?

8 A Yes.

9 Q And what did you discuss about XRP?

10 A He mentioned it. I had no idea what he was
11 talking about.

12 Q Did you have any experience with digital assets
13 or cryptocurrencies before that meeting with Chris?

14 A Very limited. I had purchased some bitcoin
15 previously, but I was not familiar with any other digital
16 assets.

17 Q And so what did he tell you about XRP?

18 A Well, I didn't understand what he had said.
19 He -- I remember him talking about billions of XRP and
20 thinking -- and not knowing what he was talking about
21 because I had not done much homework before the meeting.

22 Q Did he say how XRP fit into Ripple's business?

23 A No.

24 Q When you left the meeting, did you have any
25 understanding of how XRP fit into Ripple's business?

1 A No.

2 Q Did you discuss the job of COO with Chris?

3 A Yes.

4 Q And did he tell you what your responsibilities
5 would be as COO?

6 A That first meeting was just an introductory
7 meeting and I don't have a specific recollection of
8 discussing responsibilities of COO.

9 Q Did you discuss with Chris at the time the
10 company's financial position?

11 A I don't know.

12 Q Well, was the company profitable at the time?

13 A At the point of that meeting, I did not know.
14 With the knowledge I have now, I know the answer to that
15 is no.

16 Q Did you discuss Ripple with anyone else before
17 you took the job?

18 A Yes.

19 Q Who else did you discuss Ripple with?

20 A To the best of my recollection, I reached out
21 to a number of different friends who I thought would have
22 an interesting insights about the crypto industry. Most
23 of those people would have been what I think now are
24 referred to as bitcoin maximalists, just because they
25 were early adopters in crypto. I spoke to a gentleman

1 named [REDACTED]. I spoke to a woman named [REDACTED]
2 I'm sure I spoke to other people but it's been a number
3 of years and I can't remember all the specifics.

4 Q So ultimately, you took the job but why did you
5 decide to take the job at that time?

6 A I was compelled by the big vision for what
7 Chris had described as an Internet of value and how that
8 might impact society.

9 Q Was there any other reasons that you decided to
10 take the job?

11 A Well, I also suppose it's worth noting I had a
12 general view that any time a Silicon Valley company is
13 looking to hire a CEO, it usually means there's something
14 wrong with the company, and the reason why the Board is
15 replacing a CEO or hiring a CEO is because there is
16 something wrong.

17 And so I had made the decision that pursuing a
18 CEO job was not something I wanted to do, and instead
19 finding a compelling opportunity with an interesting
20 company and joining as part of the management team was a
21 more interesting -- where I wanted to spend my time. In
22 contrast with the AOL experience of trying to turn
23 something around or even the YouSendIt experience of
24 trying to transition a business model as CEO, I felt like
25 joining as a number two or part of the management team

1 was where I wanted to spend the next years
2 professionally.

3 Q Did you think that was a more stable or secure
4 position as opposed to CEO?

5 I'll ask a new question. Did you think that
6 was a less risky position?

7 A No.

8 Q Why not?

9 A Well, I think any startup at that stage is
10 extremely risky. The other opportunities I had at that
11 time would have been lower risk than that for sure.

12 Q And why was the Ripple opportunity a high-risk
13 opportunity for you?

14 A Well, I think Ripple and almost any startup at
15 that stage which had a series A round of funding done,
16 didn't have clarity on product strategy, didn't have
17 clarity on product market fits, that is always very, very
18 risky.

19 Q And who told you that Ripple didn't have
20 clarity on strategy or market fit at the time that you
21 joined?

22 A That's my opinion.

23 Q Did anyone share that opinion?

24 A I don't know.

25 Q And why did you believe that Ripple didn't have

1 clarity on strategy or market fit at the time?

2 A It was an extremely early stage company in a
3 nascent industry and I think any time you're trying to
4 build a company with a suite of products in a new
5 industry, it's very difficult to be able to forecast how
6 that industry will evolve, how customers will engage in
7 products that are enabled by those technologies.

8 So I think it's consistent with my experience
9 of 20 years in Silicon Valley that companies at that
10 stage rarely have clarity about product market fit. In
11 fact, companies at that state I think at that stage, if
12 they think they do have that clarity, that's probably
13 arrogance versus reality.

14 Q What industry were you talking about when you
15 said it was a nascent industry?

16 A I was thinking of the blockchain crypto
17 industry when I said that.

18 Q And is Ripple in the blockchain crypto
19 industry?

20 A Yes.

21 Q At the time that you were considering the
22 position, was it in the crypto blockchain industry?

23 A Yes.

24 Q And why was it considered part of the
25 blockchain crypto industry?

1 A I consider it part of the blockchain and crypto
2 industry because the technologies that Ripple uses to
3 solve customer problems are based upon derivatives of
4 the -- based upon and derivatives of blockchain
5 technologies and cryptocurrencies that are digital
6 assets.

7 Q Are Ripple products based upon technologies
8 that are based upon and derivatives of blockchain
9 technology?

10 A And digital assets.

11 Q And at the time, what products did Ripple have?

12 A There were two -- I'm not sure I would say
13 Ripple had any products. There was one that you might
14 call a product that was live at the time called Ripple
15 Trade. And there was a technology that Ripple had
16 developed called Codius. That would have been the two
17 that I might -- could be called products.

18 Q And what technology did they use?

19 A Meaning what products?

20 Q What technology did Ripple Trade use that was
21 based on blockchain?

22 A Oh, well, Ripple Trade was a front end for
23 enabling the trading of XRP. So when you ask what
24 technologies, I mean, I -- you know, I think it was
25 written in Ruby. Certainly would have been JavaScripts as

1 part of that technical stack. Certainly C++ would have
2 been a technology used within that as well.

3 Q Right, but what's the interaction between --
4 what's the connection between Ripple Trade and blockchain
5 technology or what's the relationship between Ripple
6 Trade and crypto?

7 A Ripple Trade I think, in today's parlance,
8 would have been called an early version of Coinbase that
9 allowed the buying and selling of XRP.

10 Q So you joined Ripple as COO. When did you join
11 Ripple as COO?

12 A I think it was April 2015.

13 Q And as CEO, did you have any direct reports?

14 A Yes.

15 Q Who were your direct reports?

16 A To the best of my recollection, Asheesh Birla,
17 [REDACTED] Monica Long. There was a woman who
18 reported to me at the time named [REDACTED] and I can't
19 remember her last name.

20 Q What was her role?

21 A HR. I'm certain I'm -- oh, what was his name?

22 [REDACTED] -- there were -- I can't recall other people beyond
23 that.

24 Q And what was Asheesh Birla's role at the time?

25 A He was vice president of product.

1 Q And Monica Long's role at the time?

2 A I believe she was director of communication.

3 Q And Mr. [REDACTED]?

4 A He was vice president of engineering.

5 Q And who did you directly report to?

6 A Chris Larsen.

7 Q And forgive me if I asked you already. What
8 were your roles and responsibilities as COO?

9 A I mean, simplistically, I was responsible for
10 the operations of the company. I certainly spent some of
11 that time in the early days thinking about the company
12 strategy, trying to focus the resources we had in a way
13 that I thought would enable us to sign up customers and
14 to have clarity on what problem we were going to solve
15 for our customers.

16 Q Were you responsible for P&L at the company?

17 A I guess I would say no.

18 Q Why not?

19 A There wasn't -- well, I think about the P&L is
20 usually somebody who controls both sides of profit and
21 loss and, at that point in my position, I would not have
22 said that I had all the levers of profit and loss.

23 Q When did you become CEO of Ripple?

24 A January 1 of 2017.

25 Q And how did it come that you became CEO?

1 A Chris Larsen, who was the CEO prior to me,
2 asked me if I would take on the position of CEO.

3 Q Did Ripple consider any other candidate other
4 than you for the position of CEO?

5 A Not that I'm aware of.

6 Q And why did he ask you to take the position of
7 CEO?

8 A I would be speculating about his impressions
9 but he wanted to step down from being CEO and so asked me
10 if I would be able to.

11 Q What was your understanding of why he asked you
12 to be CEO?

13 A My understanding is that he thought I would be
14 capable of leading the company going forward in a way
15 that would be good for the company, good for
16 shareholders.

17 Q And did he tell you why he was stepping down?

18 A I think he -- my impression is he has two young
19 kids, and I think he felt like I might be better suited
20 to lead the company than he was.

21 Q And why did he think you were better suited
22 than him?

23 A I would purely be speculating but I think -- my
24 impression of that was in some ways the -- he is more a
25 quiet introvert, very effective at the entrepreneurial

1 stage but maybe as the company scales, my leadership
2 style might be better for the company as it grew.

3 Q You said that was your understanding of why he
4 stepped down and perhaps why you were tapped to be CEO?

5 A Yes.

6 Q Did anyone share that understanding -- did you
7 discuss that understanding with anyone else at the
8 company?

9 A No.

10 Q What were your responsibilities as CEO?

11 A I was responsible for all aspects of product,
12 company strategy, execution of that strategy, you know,
13 holistically responsible for the growth and investment in
14 the company.

15 Q As CEO, were you involved in Ripple's efforts
16 to raise capital from private investors?

17 A Yes.

18 Q Were you involved in Ripple's series B or
19 series C?

20 A Both.

21 Q And what was your involvement with Ripple's
22 efforts to raise capital from private investors?

23 A I solicited and participated in numerous
24 meetings with prospective investors and discussed our
25 strategy, discussed our progress, discussed all aspects

1 of the business in both the series B and series C
2 financings.

3 Q As part of your responsibilities as CEO, did
4 you have interactions with Ripple's board of directors?

5 A Yes.

6 Q And how often did you interact with the board
7 of directors?

8 MR. SOLOMON: I'm sorry, Daphna, are we talking
9 about soon after he became CEO, during his whole time
10 period he became CEO? I just want to make sure the
11 record is clear on, you know --

12 BY MS. WAXMAN:

13 Q During your tenure as CEO, outside of board
14 meetings, how often did you communicate with board
15 members and, if that changed, please let me know.

16 A The Ripple board of directors met four times
17 per year. Let me restate that. The Ripple board of
18 directors currently meets four times per year. I don't
19 remember if we met more than that in earlier years. We
20 may have met five times a year in 2016 but outside of
21 regularly scheduled board members, there was not a lot of
22 communication with the board. I would send regular --
23 well, I intended to send regular email updates to the
24 board about the business.

25 Q Did you send regular board updates to board

1 members?

2 A Depending on how you define the word regular,
3 the answer is yes.

4 Q Well, how often did you send updates to the
5 board outside of these regular scheduled meetings?

6 A My recollection is that I started sending them
7 monthly and at some point that moved to quarterly, is my
8 recollection.

9 Q And what was the purpose of these
10 communications?

11 A Just to update stakeholders at the board of
12 directors about what's happening at their company.

13 Q As CEO, did you have interactions with Ripple's
14 shareholders?

15 A Yes.

16 Q And how often do you communicate with Ripple's
17 shareholders?

18 A The question is pretty broad meaning, you know,
19 my brothers and sisters, as it turns out, are Ripple
20 shareholders and I spoke to them a lot.

21 Q I can rephrase the question. How often did you
22 talk or communicate with Ripple shareholders about
23 Ripple?

24 A Similar to the board of directors, my intention
25 was to send regular or semi-regular updates about the

1 status of the company.

2 Q Did you field individual questions from
3 Ripple's shareholders outside of regular communications
4 or regular updates?

5 A Yes.

6 Q How often?

7 A I would be speculating. You know, that's a
8 question about my reaction to shareholders. You know, I
9 get a lot of emails so maybe I got one a day. I don't
10 really know how to -- without going through and kind of
11 looking at that.

12 Q Did Ripple hold an investor day?

13 A Yes.

14 Q And --

15 A But to be super precise about language, I think
16 you said an investor day. We held multiple investor
17 days.

18 Q When was the first time that Ripple held an
19 event for its investors?

20 A I don't recall exactly.

21 Q Did it do it when you were COO?

22 A I don't recall.

23 Q Did you hold those events while you were CEO?

24 A Yes.

25 Q As CEO, did you participate in any panels,

1 public panels or provide any public interviews?

2 A Yes.

3 Q What types of panels or interviews did you
4 participate in?

5 A Numerous, ranging from banking conferences to
6 crypto conferences to FinTech reporters. Numerous.

7 Q When you say numerous, how often did you
8 participate in these?

9 A I don't know exactly how to quantify that. I
10 mean, at different times, depending upon what was going
11 on in our business or in the industry, there might be a
12 month where I did a bunch and there might be two or three
13 months where I did almost none. So it kind of depends
14 upon what time.

15 I suppose if I were trying to just say over the
16 last five and a half years I've been there, on average
17 maybe I've done something once or twice a month.

18 Q And you said -- did you, as part of your
19 participation on those panels or interviews, did you
20 appear on television at any time?

21 A Yes.

22 Q And what programs, what television programs did
23 you appear on?

24 A I don't know that I can provide an exhaustive
25 list. At various times I was on, you know, programs that

1 I doubt -- well, I hadn't heard of like Cheddar, but also
2 well-known programs like CNBC or CNN.

3 Q What specific program on CNBC did you appear
4 on?

5 A I don't know.

6 Q Was it a financial news program?

7 A My maybe simplistic answer there is I think all
8 of the CNBC's programs are financial programs so, yes.

9 Q And did you appear on CNN?

10 A Yes.

11 Q Did you appear on Bloomberg TV?

12 A Yes.

13 Q And what was the purpose of your appearances on
14 all these TV programs or panels?

15 A I think there is not just one purpose. You
16 know, I'll identify a couple. May not be totally
17 inclusive, but educating people about the industry. As I
18 mentioned earlier in our discussion or testimony, this is
19 a nascent industry. People are learning about it, so
20 educating people about the industry of blockchain and
21 crypto, educating people about Ripple's products and
22 services within that context, discussing global
23 regulatory posture towards crypto and blockchain, those
24 are three topics I certainly would have touched on.

25 Q Are there other topics that you discussed

1 during these panels or interviews?

2 A For certain there are a myriad.

3 Q So what was the primary purpose of discussing
4 Ripple's products and services on these panels or TV
5 programs?

6 A To help the company succeed, to help raise
7 awareness by customers and overall market participants.
8 As I mentioned, it was a very nascent industry and
9 educating people about the industry and what Ripple was
10 trying to do within the industry helped us build the
11 brand of Ripple and increased customer awareness and
12 interests and engagement.

13 Q You said it raised awareness by market
14 participants. What market participants are you talking
15 about?

16 A Well, financial institutions as a primary
17 customer, regulators, market makers, you know, anyone
18 interested in the growth and evolution of these markets.
19 Whether it involved Ripple or not, I think it's useful to
20 raise awareness for the industry on these new
21 technologies.

22 Q Did you want to raise awareness for XRP
23 purchasers?

24 A I wanted to raise awareness about XRP as a
25 digital asset and how it is and is not similar to other

1 digital assets. As you're probably aware, there is a lot
2 of misinformation in the crypto industry. Some of it may
3 be innocent misinformation. Some of it may be not so
4 innocent information. And so I felt there was value in
5 clarifying and correcting misinformation about XRP.

6 Q But the question was, to whom did you want
7 to -- the question was, did you want to raise awareness
8 to XRP holders or purchasers?

9 A I would include them in the category of
10 stakeholders. And so did I want the industry at large, I
11 would include XRP. That would be a subset of that super
12 set, I think.

13 Q What do you mean by the term XRP stakeholders?

14 A What I think about XRP stakeholders, I think
15 those -- as you're probably aware, XRP is an open source
16 technology and there are a number of different companies
17 doing things in the XRP technology stack, with the XRP
18 Ledger, with XRP as a digital asset. I think of all of
19 them as XRP stakeholders.

20 Quite frankly, I think of regulators as part of
21 that stakeholder group. On a global basis, I certainly
22 spent, I don't know, maybe 20 percent of my time talking
23 about and discussing and educating, whether it's central
24 banks, whether it's regulators, about what Ripple was
25 doing, how we used XRP in our technology stack, and so I

1 view all of those players as stakeholders.

2 Q Going back to your participation in panels and
3 interviews, did anyone else at Ripple engage in similar
4 activities?

5 A Yes.

6 Q Who else?

7 A I don't know that I can provide an exhaustive
8 list. Certainly Chris Larsen, David Schwartz, Asheesh
9 Birla, Patrick Griffin would be some names that would
10 have been doing panels and discussions like that also.

11 Q Beginning in 2017, did their participation rise
12 to the level of your participation in such events? In
13 other words, were they participating in panels and
14 interviews twice a month like you said you did on
15 average?

16 A Just to clarify, I don't know exactly what my
17 testimony was. My intent was to say the average of both
18 panels and press -- as I recall the question before when
19 I said it was a couple of times a month, was referring to
20 that broader definition. I don't think I did two panels
21 a month.

22 But the new question I think is about the other
23 participants in that did they participate at a similar
24 level, I think, yes.

25 Q Was there any department at Ripple that kept

1 track of how often certain employees participated in
2 public events?

3 A Yes. The communications team would have
4 organized and otherwise tracked that.

5 Q So would they have a list of all the public
6 events that you attended on behalf of Ripple?

7 A I don't know.

8 Q How did you know that they tracked, you know,
9 Ripple employees' participation then?

10 A Because they're the team responsible for making
11 sure people are prepared and organized and coordinating
12 with conference organizers or the press for interviews.

13 Q When you gave these public remarks or
14 interviews, did anyone -- did you prepare any written
15 materials in advance?

16 A Yes.

17 Q And did you prepare the written materials
18 yourself or did someone prepare them for you?

19 A I apologize. If I can correct my previous
20 statement, written materials were prepared. More often
21 than not, I was not the preparer of those but the
22 communications team would typically prepare some sort of
23 briefing document prior to a media or other public event.

24 Q Would you consider yourself, beginning as of --
25 beginning in 2017, would you consider yourself the

1 primary spokesperson for Ripple?

2 A I certainly would have been an important
3 spokesperson. Primary is a word that can be interpreted
4 different ways. To the extent -- I doubt I was the
5 most -- other people did more public speaking and press
6 than I did by virtue of how I chose to prioritize my
7 time, but to the extent primary, as am I the, quote, most
8 important spokesperson for Ripple, probably, yes.

9 Q So you considered yourself the most important
10 spokesperson for Ripple?

11 A Yes.

12 Q And why did you consider yourself the most
13 important spokesperson for Ripple?

14 A Because I was the CEO. I am the CEO.

15 Q And why are you the most important spokesperson
16 as CEO?

17 A I think most companies -- maybe this is a
18 generalization from my experience. I think most
19 companies, the CEO is the most important spokesperson,
20 again, not necessarily measured by volume of activity but
21 by their position as CEO, kind of the buck stops there.

22 Q Is the CEO responsible ultimately for the
23 direction of the company?

24 A Yes.

25 Q As CEO, are you the face of Ripple?

1 A I think some would describe that, yeah.

2 Q Did you believe that you were the face of
3 Ripple as CEO?

4 A I don't have a clear answer to that. I think
5 Ripple has multiple people who speak on behalf of Ripple
6 and it kind of depends on which audience we're talking
7 about. Sometimes Chris Larsen is the face of Ripple as a
8 cofounder and previous CEO. Sometimes David Schwartz is
9 the face of Ripple for certain audiences. David
10 Schwartz, who is the chief technology officer, certainly
11 is an important spokesperson and face of Ripple in some
12 contexts.

13 Q Other than you, David Schwartz and Chris
14 Larsen, would you consider anyone else as being the face
15 of Ripple?

16 A From my point of view, it depends upon
17 audiences. In some contexts, you know, Asheesh Birla has
18 been the face of Ripple, but I wouldn't expand the list
19 much beyond that.

20 Q To what audience are you the face of Ripple?

21 A I mean, to the public. As the CEO, I think
22 ultimately the buck stops there and so for many people,
23 I'm the face of Ripple.

24 Q Are you the face of Ripple to individual XRP
25 holders or individual XRP purchasers?

1 A I don't know.

2 Q You don't know? Is it your understanding that
3 XRP holders and purchasers look to you as the face of
4 Ripple?

5 A I don't know.

6 Q To what audience is David Schwartz the face of
7 Ripple?

8 A When I commented on that earlier, I was -- in
9 my head, I was thinking about very technology-centric
10 conferences or audiences that are keenly interested in
11 the underlying technology where I think of David as our
12 primary face for those audiences.

13 Q What is David's standing in the Ripple
14 community and in relation to the audience you just
15 described?

16 A He is the chief technology officer of Ripple.

17 MR. SOLOMON: Daphna, it's around 10:20. I
18 know you had said that you wanted to take a break after
19 one hour. We started at about 9:04.

20 MS. WAXMAN: I just want to finish this section
21 and I'm happy to take a break. Would it be okay if we go
22 about five more minutes?

23 MR. SOLOMON: Is that okay with you?

24 THE WITNESS: Yes, that's fine.

25 MR. SOLOMON: Thank you.

1 MS. WAXMAN: Okay.

2 BY MS. WAXMAN:

3 Q And what audience do you think Chris Larsen was
4 the public face of Ripple to?

5 A The public, Silicon Valley. Chris is a
6 well-known entrepreneur in technology circles,
7 specifically FinTech circles given his experience with
8 E-Loan and Prosper.

9 Q When you say the public, does that include XRP
10 holders or XRP purchasers in the market?

11 A Yes, meaning, I think of public as the broadest
12 statement, and so I view that as the super set and an XRP
13 holder or stakeholder would be a part of that subset.

14 Q And just going back to David's standing, did he
15 have kind of a cult following?

16 A I have heard some people describe it as that,
17 yes.

18 Q Is that an accurate description from your
19 understanding?

20 A I would hesitate to -- yeah, I don't know what
21 a cult following really means. I don't know what --
22 yeah, I -- I don't have a particular view on that
23 personally. I think certainly I have heard him described
24 as having a cult following. Cult is a loaded word, so I
25 don't --

1 Q Fair enough. I'll take it.

2 Was he highly respected among the XRP
3 community?

4 A Yes.

5 Q And was he highly respected at Ripple?

6 A Yes.

7 Q And why was he highly respected?

8 A He's brilliant and insightful.

9 Q And did he play a role in the founding of the
10 company?

11 A To my knowledge, no. I don't know if that's
12 entirely fair meaning he was certainly in and around the
13 people at the founding of Ripple but, to my
14 understanding, chose not to join as a founder and
15 employee.

16 Q Just a couple more questions and then we'll
17 take a break.

18 A Sure.

19 Q Do you have a Twitter account?

20 A I do.

21 Q And do you use it to post information about
22 Ripple?

23 A Yes.

24 Q And do you post those tweets on your own?

25 A Not always but generally, yes.

1 Q Does someone else have control over your
2 account?

3 A I enable other people to access my account in
4 some circumstances.

5 Q And who have you enabled to access your account
6 and under what circumstances?

7 A Answer that in reverse order. In the
8 circumstances where I'm either away from a computer or
9 otherwise not available and interested in tweeting
10 something. And who would include people on the
11 communications team, I think only internally at Ripple.
12 Two people that come to mind with [REDACTED] and
13 [REDACTED] I think is her last name.

14 Q And just for the record, can you confirm your
15 Twitter handle?

16 A BGarlinghouse.

17 Q And is that the one that you've enabled others
18 to control at certain points?

19 A Yes.

20 Q And did you review all of the tweets that came
21 from your account?

22 A Yes. I almost always had an opportunity to
23 review tweets before they were posted.

24 Q Does anyone at Ripple manage other people's
25 Twitter accounts for them?

1 A I don't know.

2 Q And did you use your Twitter account in the
3 same way that you spoke publicly, to raise awareness for
4 Ripple and its products?

5 A That would be one way I used my Twitter
6 account, yes.

7 Q Well, I'll ask a better question. Why did you
8 tweet and how did you use your Ripple Twitter?

9 A I used my personal Twitter account, not the
10 Ripple Twitter. But I used my personal Twitter account
11 to educate, clarify, correct and at times, frankly opine
12 on things that were certainly outside of just Ripple,
13 Ripple's business and Ripple's products.

14 Q How many followers do you have on your Twitter
15 account?

16 A Somewhere around 200,000.

17 Q Did you have a Twitter account before you
18 joined Ripple?

19 A I did.

20 Q And how many follows did you have then?

21 A Fewer than 10,000.

22 Q Is the number of follows you have connected to
23 your role at Ripple?

24 A I would be speculating but I think by virtue of
25 the fact that the number of followers has grown so much

1 during my tenure at Ripple, I think the answer is yes.

2 Q And what is [REDACTED]?

3 A [REDACTED] is a public relations firm that
4 Ripple had retained for a handful of years. I can't
5 remember.

6 Q Did you retain [REDACTED]?

7 A Personally or -- I mean, the company retained
8 [REDACTED] I didn't personally retain [REDACTED]

9 Q Did you have any involvement in that --

10 A Yes.

11 Q And what was your involvement?

12 A I knew at least one of the principals at the
13 [REDACTED] from previous work experience and thought
14 highly of their abilities and so had encouraged the
15 Ripple team to include [REDACTED] in our consideration of a
16 new public relations communications firm.

17 MS. WAXMAN: So it's 10:25. Let's go off the
18 record.

19 (A brief recess was taken.)

20 MS. WAXMAN: We are back on the record at
21 10:39.

22 BY MS. WAXMAN:

23 Q Mr. Garlinghouse, while we were off the record,
24 did you have any conversations with the staff?

25 A I'm sorry, with whom?

1 Q With any member of the SEC staff.

2 A No.

3 MS. WAXMAN: Counsel, will you please confirm?

4 MR. SOLOMON: Yes.

5 MR. CERESNEY: Yes. Just to clarify so that
6 the witness understands, you asked that to make sure the
7 record was clear there were no consultations with staff
8 off the record.

9 THE WITNESS: Got it.

10 MR. CERESNEY: Everything was on the record.

11 MS. WAXMAN: Thank you.

12 THE WITNESS: Thank you for explaining.

13 BY MS. WAXMAN:

14 Q What is the XRP Ledger?

15 A The XRP Ledger is a set of code-written
16 technology that is open source and is what enables XRP to
17 exist.

18 Q What is XRP?

19 A XRP is a digital asset.

20 Q And how much XRP exists?

21 A Approximately 100 billion units.

22 Q Can any more XRP ever be created?

23 A No.

24 Q How was the initial 100 billion XRP
25 distributed?

1 A I don't know. I was not a party to that. I
2 have information subsequently but I wasn't a part of
3 that.

4 Q Well, how much XRP did Ripple receive?

5 A My understanding is that Ripple received 80
6 billion units.

7 Q And what's the basis for that understanding?

8 A What I have read and been told.

9 Q And who told you that?

10 A I don't know. To be clear, I'm not disputing
11 that but when I arrived at the company, I can say with
12 much more confidence Ripple had about 64 billion units of
13 XRP.

14 Q At some point did you come to learn that Ripple
15 had received 80 billion XRP?

16 A That is what has been shared with me, yes.

17 Q And do you know who told you that?

18 A I do not recall.

19 Q And when did you learn that Ripple had been
20 provided 80 billion XRP?

21 A I don't recall.

22 Q And who provided the XRP to Ripple?

23 A I don't have specific knowledge about that.

24 Q Do you have any understanding of how Ripple got
25 the 80 billion XRP?

1 A My understanding is that the founders of the
2 XRP Ledger bestowed 80 billion units to Ripple, the
3 company.

4 Q Ripple has publicly emphasized that the
5 founders of Ripple gifted 80 billion XRP to Ripple.
6 Would you agree with that?

7 A No.

8 Q Okay. Why not?

9 A I believe the question you asked was if the
10 founders of Ripple gifted 80 billion units. I think the
11 founders of the XRP Ledger gifted 80 billion units is my
12 understanding to Ripple. The founders of the XRP Ledger
13 and the founders of Ripple are not the same group of
14 people.

15 Q Was there any overlap between the founders of
16 Ripple and the creators of the Ledger?

17 A Yes.

18 Q And what was the overlap?

19 A My understanding -- I mean, Jed McCaleb would
20 have been the primary overlap point as a creator in terms
21 of coding of the XRP Ledger and also a cofounder of
22 Ripple.

23 Q So it's your testimony that the -- who --
24 sorry. I want to make sure I understand. Who provided
25 the XRP to Ripple?

1 A I don't know. I assume Jed McCaleb or Arthur
2 Britto or David Schwartz.

3 Q So one of those three people provided XRP to
4 Ripple?

5 A Actually, I don't know.

6 Q Have you ever asked?

7 A No.

8 Q As CEO of Ripple, is that something that you
9 would want to know?

10 A What I would want to know is how much XRP does
11 Ripple own. I don't know how the -- the way I think
12 about it is the transaction of moving, as you asked
13 earlier, the 80 billion units to the company, I don't
14 know exactly when the -- I mean, I wasn't here. I can --
15 and I've never asked. Exactly who actually moved the 80
16 billion units I don't know.

17 Q Was Chris Larsen involved in providing the 80
18 billion XRP to Ripple?

19 A I don't know.

20 Q Have you ever asked him?

21 A No.

22 Q Have you ever discussed with anyone Chris
23 Larsen's involvement in providing Ripple 80 billion XRP?

24 A No.

25 Q Did Ripple receive XRP as a gift?

1 A That's my understanding.

2 Q And what is the basis for that understanding?

3 A What has been shared with me -- you know, what
4 has been shared with me inside the company.

5 Q By whom?

6 A I don't recall.

7 Q Did Chris Larsen share that with you?

8 A I don't recall.

9 Q Did Ripple emphasize in public disclosures that
10 it had received XRP as a gift?

11 A Yes. Gift -- sorry. I don't know that the
12 word gift would have been used specifically. I think
13 certainly we have sought to -- during my tenure at the
14 company, we have sought to educate the industry about
15 when the XRP Ledger was created as contrasted with when
16 Ripple, the company, was founded.

17 MR. SOLOMON: And I just want to be -- she
18 asked whether Ripple emphasized in its filings. I just
19 want to make sure that you're answering her question.
20 There may be a difference between emphasized and --

21 MS. WAXMAN: I'll ask a new question.

22 BY MS. WAXMAN:

23 Q Did Ripple state that it had received the XRP
24 as a gift?

25 A I'm actually not aware whether or not the word

1 gift has been used or not.

2 Q Okay. Is it your understanding that Ripple
3 received XRP as a, quote, unquote, gift?

4 A Yes.

5 Q And did you discuss with anybody why the XRP
6 was, quote, unquote, gifted to Ripple?

7 MR. SOLOMON: If you can remember, Brad. It's
8 a very general question. You should give a general
9 answer.

10 THE WITNESS: No, I don't know.

11 BY MS. WAXMAN:

12 Q Were there any legal risks that the founders of
13 Ripple wanted to avoid by distributing XRP to Ripple as a
14 gift?

15 A I don't know.

16 Q You said that it was important to distinguish
17 the chronology or the timing of when Ripple received the
18 XRP in relation to the founding of the company.

19 Why is that information important?

20 MR. SOLOMON: I don't think he said important.
21 I think he was just distinguishing.

22 I just want to, instead of repeating back what
23 Mr. Garlinghouse said may or may not be important, it
24 might be better just to ask him his understanding of the
25 difference. I just want to make sure the

1 characterization is equal to the question. That's all.

2 MS. WAXMAN: Thank you. I'll ask a different
3 question.

4 MR. SOLOMON: Sorry, Daphna. I'm not trying to
5 be difficult. I just want to make sure that you're
6 getting an answer.

7 MS. WAXMAN: That's fine. Thank you.

8 BY MS. WAXMAN:

9 Q Did the company want to make known the timing
10 of the gift in relation to when the company was founded?

11 A Yes.

12 Q And when I say make known, did the company want
13 to make that known publicly?

14 A Yes.

15 Q Why?

16 A There was incorrect -- as is the case in I
17 believe crypto at large, there was a lot of
18 misinformation. There are a lot of people championing
19 different versions of their realities. And I have always
20 felt at Ripple that it is in our best interests to be
21 transparent, to be clear and to correct those that
22 would -- generally speaking, to correct those that share
23 misinformation.

24 In this case, some people have conflated -- one
25 of the challenges has been the conflation of Ripple and

1 XRP, and so identifying that the XRP Ledger pre-existed
2 the formation of Ripple, the company, is a clarification
3 that we have sought to make in the market.

4 Q And why did you want to make that clarification
5 to the market?

6 A I think any time there is confusion in the
7 market conflating Ripple and XRP, that has not been good
8 for the industry.

9 Q Can you be a little more specific about what
10 confusion you're talking about?

11 A I mean, as one example, a frustrating -- in a
12 frustrating way, CoinMarketCap, which has is often, at
13 least historically, been viewed as the source of pricing
14 information for digital assets, listed Ripple instead of
15 listing XRP, and those are two different things. And so
16 that would be one of many examples of that confusion.

17 Q So did you believe that people confused the
18 relationship between XRP and Ripple, the company?

19 A Yes.

20 Q And why do you think people confused the
21 relationship?

22 A In part because CoinMarketCap, as the
23 historically most looked-to source of digital asset
24 pricing information, referred to XRP as Ripple.

25 Q Are there any other reasons why people confused

1 the relationship?

2 A I mean, yes.

3 Q And what are they?

4 MR. SOLOMON: I'm not trying to be difficult.

5 You're asking him whether the reasons why all people

6 confuse the relationship?

7 MS. WAXMAN: Well, I was going to clarify that.

8 MR. SOLOMON: I think it would be good to --

9 BY MS. WAXMAN:

10 Q Are you talking about XRP holders? Did XRP
11 holders confuse the relationship between Ripple and XRP?

12 A I don't know and can't speak to what any
13 individual XRP holder may or may not have thought. What
14 I do know is that the industry at large, whether that's
15 reporters, whether that's -- you know, there's
16 certainly -- and to my recollection, actually, one of
17 tweets of years ago, a tweet from me, you know, kind of,
18 hey, let's all just be clear about XRP is an open source
19 digital asset; Ripple is a private company in Silicon
20 Valley.

21 I don't remember if that was actually a tweet
22 but I have some vague recollection of that. And I think
23 any time there is confusion about that, confusion in a
24 marketplace, that's generally unhealthy.

25 Q But the question was do you have an

1 understanding whether there was confusion between the
2 relationship between Ripple and XRP by XRP holders?

3 A And I believe my answer is that I don't feel
4 comfortable speculating about what any individual XRP
5 holder did or did not think. At large, do I think there
6 is confusion in the industry? Yes.

7 Q And when you say industry, does that include
8 XRP holders and XRP purchasers in the secondary market?

9 A I would expect, yes.

10 Q Did Ripple contribute in any way to that
11 confusion?

12 A I hope not. I think we certainly, during my
13 tenure, have sought to -- what I remember early in my
14 tenure at Ripple, as an example, going to CoinMarketCap
15 and asking them to correct how they characterized XRP.

16 Q Other than the situation that you described
17 with CoinMarketCap, were there other reasons why there
18 may have been confusion?

19 A Yes.

20 Q And what are they?

21 A I don't know that I can provide a comprehensive
22 explanation for all the confusion. I think CoinMarketCap
23 is a big one because they were the most prominent. I
24 think -- and maybe even as evidenced by some of your
25 earlier questions, the fact that, as one example, Jed

1 McCaleb was an original coder/architect of the XRP Ledger
2 and also a cofounder of Ripple would be an example. I
3 don't want to at all suggest that those two data points
4 are a holistic synopsis of why there could be confusion.

5 Q Did Ripple's holdings of XRP contribute to that
6 confusion?

7 A I don't know.

8 Q Did Ripple's statements regarding XRP holdings
9 contribute to the confusion?

10 A I don't know.

11 Q Earlier you said that Ripple and XRP are
12 distinct.

13 MR. SOLOMON: Daphna, you just cut out. I'm
14 sorry.

15 THE WITNESS: Oh, yeah.

16 MR. SOLOMON: It's freezing on the screen here.

17 BY MS. WAXMAN:

18 Q Why do you believe Ripple and XRP are distinct?

19 A Ripple is a privately held C Corp. with
20 shareholders that is a company with hundreds of
21 employees. XRP is an open source, decentralized digital
22 asset not that dissimilar from bitcoin or Ether that are
23 very distinct.

24 Q With respect to the confusion, at what point
25 was there confusion? At what point in time?

1 A I think -- it is my opinion that throughout my
2 entire tenure at Ripple there has been confusion.

3 Q Is there currently confusion?

4 A I believe -- my opinion is yes.

5 Q Has Ripple engaged in efforts to try to clarify
6 the relationship?

7 A Yes.

8 Q And what has Ripple done?

9 A I don't know that I could provide an -- I'm
10 unable to provide an exhaustive list. Certainly in my
11 own public comments, I have been, as part of my
12 testimony, providing -- I apologize. A truck making some
13 noise in the background here.

14 My own comments in this testimony helping
15 provide clarification when I speak to sometimes
16 prospective -- well, the press, prospective employees,
17 prospective, you name it. I would say it's an ongoing
18 discussion.

19 Q By the way, I miss the New York City noise
20 so -- I haven't heard it for a while.

21 What was the timing of the gift in relation to
22 the formation of the company?

23 A I don't know.

24 Q I think you testified earlier that the
25 confusion was not good for the industry. Is that

1 correct?

2 A I don't think confusion in any market is good
3 for an industry.

4 Q Okay. Earlier we talked about that 100 billion
5 XRP was created, 80 billion was given to the company by
6 the founders, the XRP creators. What happened to the
7 remaining 20 billion?

8 A I don't have a precise answer to that, simply
9 meaning I am aware that some of the founders of the XRP
10 Ledger, they received some of that 20 billion but I don't
11 have specific knowledge about that.

12 Q Were some of the -- the founders that received
13 some of the XRP, were they -- when you say the founders,
14 who are you talking about?

15 A The founders of the XRP Ledger I typically
16 refer to as the people who helped code the XRP Ledger,
17 and the three people contributing to the coding of the
18 XRP Ledger, to my knowledge, are Arthur Britto, David
19 Schwartz and Jed McCaleb.

20 Q Did Chris Larsen receive any of the 100 billion
21 XRP?

22 A It is my understanding that yes.

23 Q How much?

24 A I actually don't know the answer to that.

25 Q Do you know approximately how much he received?

1 A I believe he received about 7 billion units.

2 Q Did he receive the XRP in lieu of Ripple stock?

3 A I don't know.

4 Q Did you ever discuss with anybody why Chris

5 Larsen had received so much XRP?

6 A No.

7 Q Did you ever -- strike that.

8 What is xCurrent?

9 A XCurrent was the name of a product offering
10 that Ripple brought to market in, I'm guessing, late 2016
11 or the beginning of 2017, and xCurrent was a product that
12 enabled messaging to debit and credit existing pre-funded
13 accounts for financial institutions.

14 Q When did development of xCurrent begin?

15 A I don't know exactly.

16 Q Was it before you joined the company as COO?

17 A In some context, probably, yes, meaning, you
18 know, how code is contributed to a product over a period
19 of time, you know, some aspects of what came to fruition
20 with xCurrent were -- ideas were germinating prior to my
21 arrival, and certainly we decided to focus on that
22 segment of work that had been going on at Ripple.

23 Q Does Ripple ever earn any revenue from
24 xCurrent?

25 A We have -- the name of the product, xCurrent,

1 is not a product we currently use, and so I suppose the
2 answer is no.

3 Q At any point did Ripple earn any revenues from
4 xCurrent?

5 A Yes.

6 Q And during your entire tenure at Ripple, how
7 much revenue did the company earn from xCurrent?

8 A I don't know.

9 Q Can you approximate?

10 A I would -- you know, \$10 million, 5 to \$10
11 million.

12 Q Does xCurrent use XRP or the XRP Ledger?

13 A No.

14 Q Does it use blockchain technology?

15 A You know, that's an interesting question in the
16 context of it depends a little bit how you define
17 blockchain technologies. I recall internally someone
18 saying, well, on a literal basis, I think the answer is
19 no because blockchains by definition are enablers of
20 digital assets and xCurrent wasn't using digital asset.

21 Q Does xCurrent use ILP?

22 A I would say it uses a derivative of ILP.

23 Q And is that derivative of ILP that the product
24 uses a blockchain?

25 A Well, ILP is not a blockchain and I think as

1 I -- my testimony earlier, you know, xCurrent in a
2 literal definition is not a blockchain technology.

3 Q Under any definition is xCurrent a blockchain
4 technology or does xCurrent use blockchain?

5 A You know, I think blockchain is becoming -- in
6 my judgment, blockchain has become a heavy marketing term
7 and many companies use it loosely. IBM talks about using
8 blockchain in their marketing. Blockchain -- IBM
9 doesn't -- has not developed technology that enables a
10 digital asset and so, again, from a literal definition, I
11 would say that that is false advertising.

12 My point is simply that I think the word
13 blockchain has been used loosely by the industry to
14 describe, you know, derivatives of literal blockchains to
15 solve other problems as, again, IBM talks about they're a
16 blockchain but, again, they don't actually have a digital
17 asset technology. They just use a set of technologies
18 that I think they generally call Hyperledger.

19 Q The question is, under any definition, did
20 xCurrent use blockchain technology?

21 A Yes.

22 Q How?

23 A So if the question is under any definition of
24 blockchain, does xCurrent use blockchain technology,
25 under some definitions of blockchain as I was describing,

1 some people use blockchain loosely. When you're talking
2 to a technologist and you say does xCurrent use
3 blockchain, the answer is no.

4 Q So is it your understanding that xCurrent used
5 blockchain technology?

6 A No.

7 Q Did Ripple use the term blockchain loosely to
8 describe its xCurrent product?

9 MR. SOLOMON: I'm sorry, did Ripple use? Did
10 Brad? Did anybody at Ripple? In its company's
11 publications? I just want to make sure the record is
12 clear what you're asking.

13 BY MS. WAXMAN:

14 Q Mr. Garlinghouse, do you understand the
15 question?

16 A No.

17 Q Did you use the term blockchain loosely to
18 describe the xCurrent product?

19 A I don't recall specifically. Perhaps.

20 Q Did anyone at Ripple use the term blockchain
21 loosely when describing the xCurrent product?

22 A I'm not aware of any specific examples.

23 Q Did anyone -- did you ever describe xCurrent as
24 a blockchain technology or as using blockchain
25 technology?

1 A I don't recall.

2 Q Did anyone at Ripple describe xCurrent as using
3 blockchain technology?

4 A I don't know.

5 Q If they did, would that be false?

6 A Again, it depends upon which definition of
7 blockchain you're using. As I think I testified earlier,
8 I think a literal technology definition of what is a
9 blockchain, the answer would be no. As I was describing
10 using IBM's material, I think a technologist would argue
11 that what IBM is doing is not actually using blockchain
12 technology.

13 Q So IBM's use of the term is not accurate in
14 your opinion?

15 A I think they're using a loose definition.

16 Q What do you mean by loose?

17 A I mean I think as we all have experienced,
18 people have used terms and a literal definition -- I
19 mean, again, not to be too cute, but Kleenex is actually
20 a branded product of Kleenex, yet we use it loosely to
21 describe any paper tissue.

22 And by the way, I apologize. I'm not trying to
23 be argumentative at all. I'm simply pointing out that
24 the word blockchain in a nascent industry is being used
25 in ways that sometimes aren't actually a blockchain

1 technology.

2 Q Is the term being used to generate --

3 A Did I lose her?

4 Q -- hype?

5 A Sorry. I had a computer glitch there.

6 Q Sorry. Are people using the term to generate
7 hype?

8 A It's my opinion that it is being used loosely
9 in a way for companies and sometimes people to generate
10 interest in the space. Would I characterize it as hype?
11 You know, that's one interpretation.

12 Q What is xVia?

13 A XVia is another branded product in some ways
14 similar to xCurrent, also has been deprecated. We don't
15 use that name anymore but for a period of time, we sold
16 xVia to customers.

17 Q And when was xVia commercially deployed to
18 customers?

19 A Around the same time as xCurrent.

20 Q And during your entire tenure at Ripple, how
21 much revenue did Ripple learn from xVia?

22 A I don't know.

23 Q Approximately?

24 A I don't know.

25 Q Was it less than the revenue that it earned

1 from xCurrent?

2 A I would expect, yes.

3 Q And does xVia use the blockchain technology?

4 And I'm defining blockchain technology under the literal
5 definition.

6 A No.

7 Q Did you ever refer to xVia as using blockchain
8 technology?

9 A I don't know.

10 Q Same question for anyone else at Ripple. Did
11 anyone else at Ripple refer to xVia as using blockchain
12 technology?

13 A I don't know.

14 Q When you first joined Ripple as COO, how did
15 XRP fit into Ripple's business model?

16 A I didn't know.

17 Q At what point did you -- at some point did you
18 come to learn how XRP fit into Ripple's business model?

19 A I think Ripple's -- as is the case with many
20 technology startups in Silicon Valley, I think that is a
21 journey, not a destination, if you will. And so
22 understanding how XRP fits into Ripple's business model I
23 think hasn't been a fixed, we know exactly the answer.
24 Instead, it's been part of the journey of, you know,
25 understanding what Ripple looks like in five years is not

1 clear to me.

2 Q So would you say that XRP's relationship with
3 Ripple and its business is evolving?

4 A Yes.

5 Q And has it changed since the time that you
6 joined Ripple?

7 A Yes.

8 Q And how did it fit into Ripple's business when
9 you joined, recognizing that it has changed and evolved
10 over time?

11 A I don't know that I had a point of view about
12 how XRP fit into Ripple's business model when I joined.
13 I was very new to the -- well, obviously to the company
14 but I was also new to the industry. So when I joined,
15 that was part of the let's figure it out.

16 Q How does XRP fit into Ripple's business today?

17 A XRP is a digital asset that Ripple owns today
18 somewhere around 55-56 billion units of. We think about
19 how to make XRP the most trusted, the most liquid and the
20 most useful of digital assets, and we think that by
21 achieving that, that is valuable to Ripple's
22 shareholders.

23 Q What is XRP's target market or customer?

24 A I'm not --

25 Q For Ripple.

1 A Sorry, say again.

2 Q Who does Ripple see as its -- as XRP's target
3 customer?

4 A Today, Ripple's target customer are financial
5 institutions doing cross-border payments.

6 Q And when did Ripple target that group?

7 A Well, all the way back to 2015, certainly that
8 was one of a number of different possible market
9 opportunities Ripple was considering pursuing, and so we
10 over time got more and more focused on that specific
11 customer set.

12 Q Did you have any involvement in Ripple's
13 decision to focus on banks and financial institutions?

14 A Yes.

15 Q What was your involvement?

16 A I would I was the decision-maker.

17 Q And why did you decide that?

18 A I believe in a broader business context that
19 focus is paramount and if you want to achieve success,
20 you need to have very good clarity about what problem
21 you're trying to solve and how you're going to solve it.
22 When I joined Ripple, there were a number of different
23 market opportunities that the company was evaluating and
24 I was an advocate and champion of choosing one and going
25 deep in that vertical.

1 Q Why focus specifically on banks and financial
2 institutions?

3 A I thought the market opportunity, the size of
4 the market and the unique characteristics of technologies
5 that Ripple had in its -- native to its technical stack
6 aligned well with solving a financial institution
7 problems around cross-border payments.

8 Q What was the growth potential in terms of how
9 much profit the company could earn if it focused on banks
10 or financial institutions?

11 A I did not know.

12 Q Was there any other reason that you decided to
13 focus on banks and financial institutions?

14 A I mean, I suppose I would add it was my opinion
15 joining Ripple that some of the ethos and almost mantra
16 of the crypto industry was kind of an antibank,
17 antigovernment perspective, and it was my thesis that the
18 best way to impact the most people in a positive way with
19 these technologies was to work with the financial
20 institutions, not to circumvent financial institutions.
21 With that in mind, it felt like if you can work with
22 these financial institutions to deploy these technologies
23 in ways that makes them more efficient, that's good for
24 them. It's good for the industry and good for Ripple.

25 Q Did Chris Larsen have any role in the decision

1 to focus on banks and financial institutions?

2 A To be fair, I said earlier that it would have
3 been my decision. The reality is Chris was the CEO at
4 the time. I would have recommended to him that I would
5 say it ultimately would have been his decision. I think
6 internally I was certainly known as the person that was
7 championing being focused and specific in what customer
8 segment we're going after.

9 Q Prior to that decision, was the company focused
10 on several business opportunities related to XRP?

11 A I'm parsing your question a little bit by
12 saying I don't think they were focused so, no, I guess is
13 the answer to the question. I think there were multiple
14 different market opportunities. As you may know, at the
15 time the company referred to itself as Ripple Labs. I
16 felt that it was important that we not be a lab, just
17 researching and pursuing and testing, but actually to be
18 clear about let's build a product for a clear customer,
19 let's sell that product to a customer and let's get
20 people using these technologies.

21 Q Earlier we spoke a little bit about Ripple
22 Trade. At the time that you decided to focus on banks and
23 financial institutions, what was the status of Ripple
24 Trade?

25 A I can't recall.

1 Q Did Ripple decide to shut down Ripple Trade?

2 A Ripple decided to shut down Ripple Trade as
3 part of a settlement with FinCEN.

4 Q Were you involved in the decision to shut down
5 Ripple Trade?

6 A I was involved in executing the decision to
7 shut down Ripple Trade. I believe that decision predates
8 my arrival at Ripple.

9 Q Do you know who made that decision?

10 A I do not. The CEO, Chris Larsen.

11 Q Did anyone tell you why the company decided to
12 shut down Ripple Trade?

13 A Because of a settlement with FinCEN.

14 Q Was there any other reason that the company
15 decided to shut down Ripple Trade?

16 A I don't recall.

17 Q Did you understand there to be any legal risks
18 associated with Ripple Trade?

19 A In what time period?

20 Q In or around 2015?

21 MR. CERESNEY: I assume, Daphna, you're not
22 asking about privileged information here because if he's
23 talking about legal risk, he's probably talking to a
24 lawyer about that. So I just want to make sure the
25 witness understands --

1 MS. WAXMAN: Thank you.

2 MR. CERESNEY: -- that when answering that, he
3 should try stay clear of privileged territory.

4 THE WITNESS: Right.

5 BY MS. WAXMAN:

6 Q That's correct. Thank you. I don't want to --
7 please don't disclose any conversations that would be
8 privileged. And when I say privileged, conversations
9 where you are receiving advice from -- legal advice from
10 counsel.

11 A Right. Thank you for both of those
12 clarifications.

13 Can you repeat the question just so I have it
14 in my head?

15 Q Sure. Other than conversations with counsel in
16 which you received legal advice, did you understand or
17 did you have any conversations about whether there were
18 any legal risks associated with Ripple Trade?

19 A Outside of the conversations with legal
20 counsel, I can't recall.

21 Q Did you ever discuss Ripple Trade with Chris
22 Larsen?

23 A I'm certain I did.

24 Q What did you discuss?

25 A I'm sure we discussed the efficient wind-down,

1 how to stop accepting new customers, how to migrate
2 existing customers, how to deal with customer service
3 inquiries that come in, things like that. Not that
4 that's all-inclusive but as I testified earlier, I
5 believe the decision to wind down Ripple Trade predates
6 my arrival at Ripple. I'm not 100 percent sure about
7 that but I viewed one as my -- one of my early projects
8 at Ripple was to wind down Ripple Trade.

9 Q Earlier you said Ripple Trade was like an early
10 version of Coinbase, correct?

11 A I think I would have described it as analogous
12 to Coinbase. I'm not sure I would call it an early
13 version of Coinbase but analogous to Coinbase.

14 Q So it was a venue for people to buy and sell
15 XRP?

16 A That is my recollection, yes.

17 Q And could anyone buy and sell XRP through
18 Ripple Trade?

19 A I don't know for certain.

20 Q Did Ripple ever promote Ripple Trade to traders
21 or market makers or people who would speculate in XRP?

22 A I don't know.

23 Q Did you ever discuss with anybody the risks of
24 using Ripple Trade to sell XRP to speculators, traders or
25 market makers?

1 MR. SOLOMON: I guess the same qualification in
2 answering again about not getting into sensitive
3 information.

4 THE REPORTER: I'm sorry, Mr. Solomon. I could
5 not hear you. "The same qualification" --

6 MR. SOLOMON: I apologize. Subject to the same
7 qualification Mr. Ceresney just gave, Mr. Garlinghouse
8 should not be talking about any privileged communications
9 including communications with others that are not lawyers
10 where legal advice may have been discussed.

11 THE WITNESS: So my answer is outside of any
12 conversations that involved legal advice, I don't know.

13 BY MS. WAXMAN:

14 Q Okay. When you joined Ripple as COO, did
15 Ripple have a plan or a strategy on how to use or
16 distribute its XRP?

17 A When I joined, I did not know.

18 Q At any point did you come to learn whether
19 Ripple had a strategy for its XRP?

20 A Yes. I probably am -- I mean, sometimes the
21 early stage of a company, calling something a strategy
22 might be generous. I think Ripple has had the view for a
23 long time, since really inception, that we will have an
24 Internet of value and that having a highly efficient, as
25 measured by speed, as measured by cost, having a highly

1 efficient digital asset underlying that Internet of value
2 is important.

3 Q My question is specifically whether the company
4 had a plan on how to distribute its XRP holdings, and if
5 they did, at what point in time and what was that plan?

6 A I don't -- I think my testimony was that I
7 don't know that Ripple, like many companies, had -- many
8 starts-ups, has a clear strategy and a clear plan and
9 instead those -- you know, that is a journey. I think my
10 testimony was I think the strategy from the beginning of
11 the company was in order to enable an Internet of value,
12 you would need the underpinnings from a highly-efficient,
13 measured-by-speeding-cost digital asset, and XRP is,
14 particularly compared to other digital assets, much more
15 efficient.

16 So in that context, that was the strategy of
17 how do we think about XRP, how do we make it very liquid,
18 how do we make it very trusted.

19 Q What do you mean by make it very liquid?

20 A In the trading of XRP against other currencies,
21 whether they be fiat or digital.

22 Q Did the company set to monetize its XRP
23 holdings?

24 A I'm sorry, I missed part of the question.

25 Q Did Ripple set out to monetize its XRP

1 holdings?

2 MR. SOLOMON: Can you -- I'm sorry, did they
3 set out at the beginning? When he joined? At some point
4 later? I think if you could unpack that just a bit for
5 him, it would be helpful.

6 Maybe ask him was he aware that there were
7 asset sales -- that there were sales of XRP prior to his
8 joining and what was his awareness of that, which is --
9 and did he come to understand that they had a strategy in
10 terms of XRP sales going forward.

11 I just think it would be helpful to break it
12 down a little bit instead of asking really sweeping
13 question. Just whether he answers or not, hopefully.

14 MS. WAXMAN: Appreciate it.

15 BY MS. WAXMAN:

16 Q I will ask you specific questions about sales
17 but I'm curious to know whether at the outset in 2015 or
18 at any point after the company looked -- and when I say
19 monetize, I meant to make money, to sell XRP into the
20 market.

21 A When I joined the company in 2015, I was not
22 aware of that. After joining the company, I became aware
23 that Ripple was selling XRP.

24 Q And how did you learn that Ripple was selling
25 XRP?

1 A I don't recall specifically but certainly
2 through financial statements, through participation in
3 meetings and just generally getting educated about the
4 company as I was onboarded.

5 Q And sorry if I asked this but when did you
6 learn that the company was selling XRP?

7 A I don't recall specifically but shortly after
8 joining. Certainly in 2015.

9 Q And you said you learned the company was
10 selling XRP from looking at financial statements?

11 A I don't recall specifically. That would have
12 been one example of how I may have learned of that.

13 Q And at the time that the company was selling
14 XRP, did the company have revenues from any other
15 sources?

16 A In what time period?

17 Q At the time that you first learned about those
18 sales.

19 A I believe, yes.

20 Q And how much revenue was the company earning
21 from other -- from non-XRP sales?

22 A I don't recall.

23 Q At the time that you learned that XRP was
24 selling -- that Ripple was selling XRP, was it your
25 understanding that the company was relying on those

1 proceeds to fund its operations?

2 A No. The qualifier, I guess I'll proactively
3 offer here, is the company had raised capital as part of
4 a seed round, a series A round, and so the company had
5 money in the bank from a number of resources.

6 Q At any point while you were at Ripple, did you
7 come to the understanding that it was relying on XRP
8 sales to fund operations?

9 A Yes.

10 Q And when was that?

11 A I think my testimony earlier was I don't recall
12 when exactly but certainly in 2015 or shortly after
13 joining the company.

14 Q And I just want to make sure I understand and
15 I'll ask a clear question. When did the company begin to
16 rely on XRP sales to fund its operations?

17 A Well, I'm not sure we're communicating
18 effectively in that your use of the word rely, I would --
19 what do you mean, rely?

20 Q Well, could the company operate, pay its bills,
21 if it didn't receive any -- if it didn't sell XRP into
22 the market?

23 A Yes.

24 Q And what --

25 A In which time period would be helpful, but,

1 yes, the point being that as many Silicon Valley
2 companies have done, Ripple prior to my arrival and after
3 my arrival had raised venture funding from investors in a
4 seed round and a series A preferred financing and series
5 B preferred financing, and so absent revenue from selling
6 XRP, we would have invested, you know, spent -- we may
7 have spent differently but we would have continued to
8 invest to build products.

9 Q So this is how I understand it. I understand
10 it that the company had money coming from private
11 investors. The company had some revenues from non-XRP
12 products and the company had money from XRP sales. Is
13 that correct?

14 A Yes.

15 Q And how did the money -- my understanding is
16 that revenue from non-XRP products was very small.
17 Earlier you testified it was somewhere, you know, around
18 5 to 10 million for xCurrent and then around 5 million
19 from XRP, is that correct?

20 A No. I think I testified that xVia was simply
21 less than 5 to 10 million. I didn't know how much.

22 Q Well, in general, how much -- what percentage
23 of Ripple's revenues came from non-XRP products and what
24 percentage of Ripple's revenues came from XRP beginning
25 in 2015?

1 A My recollection from 2015 is that XRP sales
2 would have represented 80 to 90 percent of total revenue.

3 Q And did that percentage grow over time?

4 A It would depend on which time period we're
5 discussing but, you know, the number has been around 90,
6 95 percent in the most recent year or two.

7 Q And how did it happen that the percentage of
8 XRP sales as a proportion of Ripple's revenue grew since
9 2015?

10 A The amount of XRP grew faster than the other
11 sources of revenue. The amount of XRP sales grew faster
12 than the other sources of revenue so the percentage grew.

13 Q How did that -- did you -- did the company sell
14 more XRP in later time periods?

15 A I don't know the answer to that. I don't know.
16 But that is a knowable answer. I just don't know off the
17 top of mind.

18 Q Is there any document that would refresh your
19 memory?

20 A Yes.

21 Q What document?

22 A A financial statement from any -- 2015, 2016,
23 2017, 2018, 2019.

24 Q Okay. So you're not sure what caused the
25 increase in the XRP revenues as a percentage of Ripple's

1 total revenues?

2 MR. CERESNEY: No, I think, Daphna, the
3 confusion here is there are a number of variables
4 involving sales including the price of XRP as well as --
5 confusion in the question and the answer here is I think
6 Mr. Garlinghouse is --

7 THE REPORTER? I'm sorry. Could you lean into
8 the microphone? I'm having difficulty hearing you as
9 well. I'm sorry.

10 MR. CERESNEY: Sure. I was saying that there's
11 a number of dynamics involved in connection with the
12 sales of XRP including the price of XRP as well as the
13 volume that you're selling. And I think the confusion
14 between some of your questions and answers to Mr.
15 Garlinghouse is he is sort of weighing those different
16 variables in trying to answer your question. And so
17 maybe if you could phrase the question a little bit more
18 clearly, I think you guys would be on the same page.

19 MS. WAXMAN: Okay. Thank you. I'll try.

20 BY MS. WAXMAN:

21 Q I understand that XRP's price increased, you
22 know, during the time period from 2015 to 2017 so due to
23 the increase in price, the company's revenues from that,
24 from the sales of XRP would have grown.

25 But independent of that, did XRP sell more XRP

1 into the market over time?

2 MR. CERESNEY: When you say more XRP, you mean
3 a higher number, units of XRP?

4 MS. WAXMAN: Yes. Yes.

5 THE WITNESS: And that, as I testified earlier,
6 I don't know. As Mr. Ceresney has articulated, there's a
7 bunch of inputs that yield the outcome of how many
8 dollars came in. So if the question is did we sell more
9 units of XRP in one year versus another, I would have to
10 look at a financial statement to know the answer to that.

11 BY MS. WAXMAN:

12 Q Were you involved in the decision to sell XRP?

13 A In what time period?

14 Q In any time period.

15 A Yes.

16 Q And when were you involved in the decision to
17 sell -- in the decision for Ripple to sell XRP?

18 A Just to clarify, Ripple was selling XRP prior
19 to my arrival at Ripple. My decisions -- I was a
20 participant in our posture in the XRP markets, you know,
21 basically since I joined the company, maybe a couple, two
22 or three months after I joined the company through today.

23 Q So were you involved in the decision to sell
24 XRP into the market from the time you arrived at Ripple?

25 A Yes.

1 Q Okay.

2 A Or shortly thereafter. I don't -- as I
3 testified earlier, I don't think when I joined the
4 company, I was aware that Ripple they were selling XRP.
5 After being in the company for a while, I was aware and
6 participated in those discussions.

7 Q So at some point after you arrived at Ripple,
8 you learned that the company was selling XRP and at some
9 point you were involved in those sales. And my question,
10 what was your specific involvement?

11 A My recollection -- and I don't know when
12 exactly this started but we, you know, at some point we
13 had a regular meeting that we called the XRP markets
14 meeting that had a number of different participants in it
15 and I participated in that meeting discussing the state
16 of the XRP markets and Ripple's posture within that as it
17 related to selling XRP.

18 Q And how often were those meetings?

19 A At some point they became weekly.

20 Q Do you recall at what point they became weekly?

21 A I do not.

22 Q And who participated in those meetings?

23 A That list evolves over time. Certainly myself,
24 Chris Larsen, legal counsel. Let's see, I think almost
25 always probably the CFO or equivalent if the position may

1 not have existed at various points in time. But those
2 are a handful of the names.

3 Q Did Chris Larsen participate in those meetings
4 after he stepped down as CEO?

5 A Yes.

6 Q Do those meetings still occur today?

7 A Yes.

8 Q Does Chris Larsen still participate today?

9 A On occasion, yes.

10 Q Does he regularly participate in those
11 meetings?

12 A I mean, I know it seems like a strange answer
13 but I don't know only because he typically joins by phone
14 and sometimes I don't know if he's on or not.

15 Q Were there any written materials that you
16 reviewed in connection with those meetings?

17 A Yes.

18 Q And what written materials?

19 A Generally speaking, there was a report sent the
20 night before that would outline kind of an agenda and
21 review the activity in the XRP markets again at large as
22 well as Ripple's participation in them.

23 Q What was discussed at those meetings?

24 A Kind of as a general matter there were a lot of
25 meetings, so --

1 MR. SOLOMON: Just the same proviso. You said
2 there was legal counsel there?

3 THE WITNESS: Right.

4 MR. SOLOMON: That's fine if you talk about the
5 nature of the discussions but --

6 THE REPORTER: I'm sorry, I can't hear you, Mr.
7 Solomon.

8 MR. SOLOMON: I'm very sorry. He had mentioned
9 that there was legal counsel involved in these meetings.
10 It's fine to talk about the subject matter of the
11 meetings and general discussion topics of the meetings.
12 I just wanted to caution him that to the extent he
13 remembers getting legal advice during those meetings,
14 just stay away from that topic.

15 THE WITNESS: I think at the most macro level,
16 there were, you know, simplistically three general agenda
17 items: One, what's going on in the crypto markets at
18 large, what activity we're seeing in the crypto markets,
19 what are the drivers in the crypto markets at large; two,
20 within that context, what's going on with XRP; and three,
21 what is Ripple's posture in terms of selling XRP, how
22 much had been sold, things like that.

23 BY MS. WAXMAN:

24 Q You said what was going on in terms of XRP.
25 Are you talking about XRP's price or volume in the

1 market?

2 A Yes, both, and others.

3 Q What others?

4 A We might discuss what other companies are doing
5 things in the XRP market, what success they may or may
6 not be having but certainly the volume -- I mean, to the
7 extent our goal, as I mentioned earlier, was to drive
8 liquidity, trust and utility of XRP, we would have
9 thought about all three of those in various ways.

10 Q Were there any decisions made at that meeting?

11 A Yes.

12 Q What decisions were made?

13 A I mean, there have been hundreds of those
14 meetings in my five and a half years, and so I would
15 hesitate to try to answer that thoroughly.

16 Q During that meeting, did the company make
17 decisions regarding its selling posture?

18 A Yes.

19 Q Who made those decisions?

20 A There typically would be a recommendation from
21 someone on the team and then, at the end of the day, I
22 would imagine typically we would move forward with that
23 recommendation. But I suppose at the end of the day,
24 when Chris was CEO, it would have been ultimately his
25 decision and when I became CEO, it ultimately became my

1 decision.

2 Q And what recommendations were provided during
3 the meeting with respect to Ripple's selling posture of
4 XRP?

5 A I mean, as I mentioned earlier, there literally
6 have been hundreds of those meetings, so if you could
7 maybe more narrowly -- I don't know, literally hundreds
8 of decisions that may have been made and so I don't know
9 how to answer that.

10 Q During those meetings, did you ever discuss
11 whether to increase Ripple's -- the amount of XRP that
12 Ripple sold into the market?

13 A Yes.

14 Q And why would Ripple increase the amount of XRP
15 that it sold into the market?

16 A To the extent that our goal was to be a non --
17 we wanted to not impact the market and we would
18 definitely have evaluated, to the extent, you know, do we
19 think there is an impact from Ripple in the market, and
20 that might be an input into our posture.

21 Q When you say impact the market, what are you
22 talking about?

23 A I'm talking about the XRP market.

24 Q Are you talking about XRP's price in the
25 market?

1 A I'm talking about the price activity, volume
2 activity. We wanted to be -- and as you're probably
3 aware, you know, 99.X percent of all XRP trading doesn't
4 involve Ripple and we wanted to make sure that our
5 participation in the market was constructive and not
6 harmful to the market.

7 Q What do you mean by constructive and not
8 harmful to the market?

9 A Additive to liquidity and not impacting the
10 price.

11 Q When you say not impacting the price, are you
12 talking about causing a price decrease?

13 A Or increase.

14 Q Or increase. Why did you not want to impact
15 the price either up or down?

16 A I think we have always viewed that having a
17 healthy XRP market is important to our ability to build
18 the products we want to build, to have efficient markets.
19 So we did not want to be a -- we did not want to be -- we
20 don't want to be in a position where we're impacting the
21 market.

22 Q Did Ripple have an interest in seeing the
23 higher XRP price?

24 A Ripple's goal has been to drive liquidity in
25 the market and solving customer problems. Does -- I

1 mean, and I've said to the SEC previously, I won't shy
2 away from the fact that Ripple owns a lot of XRP and as
3 capitalists, we benefit if the price of XRP goes up.

4 Q And how does Ripple benefit?

5 A We own a lot of XRP. If the price goes up, the
6 value of the assets we own goes up.

7 Q So Ripple's valuation to its shareholders is
8 increased?

9 A Well, there's a lot of inputs that impact the
10 valuation to shareholders, but I -- well, I don't know
11 that I can say authoritatively that what you said is
12 true, that -- it would be one of many inputs.

13 Q If the price of XRP increased and Ripple sold
14 that XRP into the market, could it get more money from
15 its XRP holdings?

16 A Yes.

17 Q So is that one benefit of the price going up?

18 A Yes.

19 By the way, this moment of pause, at some point
20 I need to have a bio break.

21 Q Okay.

22 MR. SOLOMON: How much longer did you want to
23 go before lunch? Did you want to go until about 12:30
24 or --

25 MS. WAXMAN: That works for me. Does that work

1 for everybody else?

2 THE WITNESS: If we're going to 12:30, I
3 probably need to take a two-minute break.

4 MR. SOLOMON: Absolutely.

5 THE WITNESS: I can go a couple more minutes.

6 MR. SOLOMON: But did you want to continue for
7 another half an hour before we take the lunch break?

8 MS. WAXMAN: I would like to if that's okay.
9 So can we take a two-minute break and let him use the
10 rest room and then go back on the record?

11 MR. SOLOMON: Absolutely.

12 MS. WAXMAN: Okay.

13 THE WITNESS: We'll be right back.

14 MS. WAXMAN: We're off the record at 11:54.

15 (A brief recess was taken.)

16 MS. WAXMAN: We're back on the record at 12:00
17 p.m.

18 BY MS. WAXMAN:

19 Q Mr. Garlinghouse, while we were off the record,
20 did you have any substantive conversations with the SEC
21 staff?

22 A No.

23 MS. WAXMAN: Counsel, will you please confirm?

24 MR. SOLOMON: Confirmed.

25 BY MS. WAXMAN:

1 Q I wanted to ask you a little bit about xRapid,
2 what is now known as on-demand liquidity. I may use
3 these terms interchangeably if that's okay with you.

4 A Yes, that's fine. Thank you.

5 Q And what is xRapid?

6 A XRapid is a product we, Ripple, brought to
7 market to mitigate the need for financial institutions to
8 pre-fund in a destination currency yet still make
9 payments in real time to those other countries or
10 currencies.

11 Q When did Ripple start to develop xRapid?

12 A A little bit like xCurrent, it has been, in one
13 way or another, you know, part of a vision of what we can
14 do to solve payment problems from, frankly, I think,
15 before I was there. Productizing it was much later and,
16 you know, really probably not actually productized in the
17 market until 2018, I think.

18 Q Does October/late 2018 sound right?

19 A Yeah, although I think perhaps we had beta or
20 kind of what we would call alpha or beta tests or
21 customers prior to that, but that sounds right.

22 Q When did Ripple start to pilot xRapid?

23 A My pause is only confusion. I think that's
24 what we were just -- well, I thought I was just answering
25 that question. Maybe I'm -- when I talk about an alpha

1 or beta, I'm talking about pilots. So sometime in 2018
2 would have been when we first started to pilot that.

3 Q And when was xRapid deployed for commercial
4 use?

5 A I don't recall exactly but not long after that
6 time period.

7 Q Was it six months?

8 A I would guess -- well, if we measure October as
9 the starting point, I would guess it was less than six
10 months.

11 Q Well, I'll another question. How long -- how
12 many months was Ripple piloting xRapid?

13 A I don't recall.

14 Q Can you walk me through an ODL transaction?

15 A Sure. Well, to -- where would you like me to
16 start?

17 Q From the beginning. That's always a good
18 place.

19 A I guess the reason I'm asking, I mean, you
20 know, there is the technical, like here is how an ODL
21 transaction persists versus how we sell to a customer.
22 If we start with how we sell to a customer and then the
23 customer onboards, or do we start with the customer
24 exists, you're holding a dollar and you're getting a peso
25 out of that?

1 Q Why don't you start at the very beginning. I'm
2 not really interested in, you know, the onboarding of
3 customers. I want to understand what your understanding
4 is of the mechanics of an ODL transaction.

5 A Okay. Perfect. Thank you.

6 So if you are holding a dollar, United States
7 dollar, and you would like to transfer that into a
8 Mexican peso, you would sell the dollar on an exchange
9 such as Bitstamp, you would use the dollar to buy an
10 equivalent units of XRP. You would then be holding XRP.
11 You would then move the XRP across the XRP Ledger to, in
12 this case, Bitso in Mexico. You would sell the XRP and
13 buy a corresponding number of units of Mexican pesos.

14 By doing those series of steps, you've gone
15 from holding good liquid funds of dollars to good liquid
16 funds of Mexican pesos in a financial institution, a
17 regulated financial institution in Mexico, which then can
18 be moved intra Mexico.

19 Q By using xRapid, does the customer avoid
20 having, you know, the specific exchanges on the sending
21 exchange and the receiving end, receiving exchange?

22 A I'm sorry, could you ask the question again? I
23 didn't --

24 Q You said there is an exchange -- my
25 understanding is that there is a sending exchange and a

1 receiving exchange involved in an ODL transaction. Is
2 that correct?

3 A That's correct.

4 Q Is that your understanding as well?

5 A Unless you were doing XRP origination, which we
6 do today, that answer is correct.

7 Q Let me take a step back. The customer that
8 uses XRP or ODL, what are the costs that are borne by the
9 customer as part of their -- you know, as part of using
10 XRP in connection with xRapid?

11 A I don't know that I can answer that precisely
12 in that which costs are absorbed by Ripple and which
13 costs are absorbed by a customer isn't -- even that isn't
14 a static thing, so --

15 Q That's not my question. The question is, what
16 costs are involved in an ODL transaction?

17 A Sorry. Well, you would have the costs
18 associated with funding in a USD account at for, example,
19 Bitstamp. You would have the exchange costs of Bitstamp
20 going from USD to XRP. You know, arguably you would have
21 very, very de minimis costs of moving the XRP, and then
22 you would have the costs associated with -- at the
23 terminating exchange, I can't remember your choice of
24 words but at an endpoint exchange of converting the XRP
25 back to fiat, in this case, Mexican peso.

1 Q So there are costs at both exchanges. Are
2 there any other costs?

3 A Not that I'm aware.

4 Q And how is the xRapid rate determined for
5 customers who are using xRapid for cross-border payments?

6 MR. SOLOMON: What do you mean by xRapid rate?

7 BY MS. WAXMAN:

8 Q My understanding is that when someone uses
9 xRapid, there is a rate that they're quoted for the
10 transaction. How is that quoted rate determined?

11 A The quoted rate is looking at the exchange
12 price between XRP and USD, and XRP and Mexican peso, so
13 that you have a clearing price to go dollar-peso.

14 Q And is the quoted rate the rate that is
15 provided?

16 A To my knowledge, yes.

17 Q Is the quoted rate the same as the executed
18 rate?

19 A I don't know.

20 Q Do you know what I'm talking about when I talk
21 about the executed rate?

22 A I'm assuming you mean the rate that -- as a
23 customer says, I want to send this money, here's a quoted
24 rate and then there's -- okay, the transaction has now
25 completed, there is an executed rate. That is my

1 assumption of what you mean by that.

2 Q Right. So my understanding is a customer at
3 the initiation of a transaction, there is a quoted rate
4 and then the transaction takes three seconds and then
5 there is an actual executed rate.

6 A Yes. It would typically take longer than three
7 seconds. The part on -- moving across the XRP Ledger
8 would take three to four seconds, but you also have the
9 time it takes to do trades on both ends of the exchange
10 which cumulatively would add up to more than three or
11 four seconds.

12 Q And how is the executed rate determined?

13 A By adding up the -- just doing the math between
14 here is the actual -- you might have had a -- okay, here
15 is the rate. The executed rate is just the reality of
16 here is how much it costs to move those funds from point
17 A to point B.

18 Q And is there ever a difference between the
19 quoted rate and the executed rate?

20 A I expect, yes.

21 Q And how often is there a difference between the
22 quoted and executed rate?

23 A I don't know.

24 Q What causes the difference between the quoted
25 and the executed rate?

1 A I suspect fluctuations in the price of or the
2 exchange rate between dollar and XRP and dollar and peso.

3 Q Does Ripple guarantee the quoted rate for the
4 customer?

5 A In some cases, I believe, yes.

6 Q Why do you say in some cases? What does it
7 depend on?

8 A A contract.

9 Q Does Ripple provide -- guarantee the quoted
10 rate for some of its customers?

11 A To my knowledge, yes.

12 Q Does it provide a guarantee for all of its
13 customers?

14 A I don't believe so.

15 Q Why does Ripple provide that guarantee to its
16 customers? Granted, I understand it's not all of its
17 customers but some of its customers.

18 A I'm not sure if it's all of its customers, just
19 to clarify, but why do we do that? Well, we want to see
20 market adoption and to help customers -- to help mitigate
21 risk for the early participation in this product.
22 Reducing potential barriers to adoption helps customers
23 get enthusiastic about getting involved.

24 Q How does the -- what is the value proposition
25 for banks and payment providers and other financial

1 institutions to use XRP in connection with xRapid?

2 A The value proposition to financial -- the
3 primary value proposition to financial institutions to
4 use on-demand liquidity, formerly xRapid, is to reduce
5 the need to pre-fund in many, many jurisdictions or many,
6 many currencies around the world and allowing that
7 working capital to not be sitting idle in what are
8 generally referred to as nostro/vostro accounts.

9 Q Are there any cost savings from using XRP in
10 connection with xRapid?

11 A Yes.

12 Q What cost savings?

13 MR. CERESNEY: Do you mean cost savings from
14 using XRP and xRapid or cost savings from xRapid versus
15 other means?

16 BY MS. WAXMAN:

17 Q What are the cost savings associated with using
18 XRP as part of the xRapid transaction?

19 A So maybe just to clarify so we're all on the
20 same page, XRP is in every xRapid or on-demand liquidity
21 transaction.

22 Q That's my understanding as well.

23 A Okay. I guess what I'm not following in your
24 question, I think what I heard you ask is what are the
25 cost savings of using XRP in an xRapid transaction.

1 Q I mean, since every xRapid transaction involves
2 using XRP, I guess the question is what are the cost
3 savings associated with using xRapid?

4 A Right. Okay. Got it.

5 MR. CERESNEY: I just want to make sure we're
6 on the same page again.

7 THE WITNESS: So I think my testimony then is
8 the primary cost savings associated -- in my judgment,
9 the primary cost savings, the primary benefit of
10 financial institutions using xRapid, now known as
11 on-demand liquidity, is mitigating the need to pre-fund
12 and use working capital and to park that capital in many
13 currencies around the world and have that as dormant or
14 idle working capital.

15 BY MS. WAXMAN:

16 Q Are there any other cost savings from using
17 xRapid other than savings associated with pre-funding?

18 A Yes.

19 Q What are they?

20 A It depends on what currency corridors we're
21 talking about because that would impact the efficiency.
22 For example, we don't prioritize dollar/yen as a currency
23 corridor. The efficiency in the traditional markets
24 between dollar and yen are pretty good. By contrast, if
25 you were to pick a less liquid, you know, somewhat -- not

1 totally randomly but somewhat randomly choosing
2 Australian dollar to Philippine peso, that is a less
3 liquid corridor and less efficient corridor, and so the
4 cost savings of using a product like xRapid might be more
5 significant relative to traditional rails. Rails --
6 traditional steps.

7 As you may know, if you -- today we go from
8 Australian dollar to Philippine peso, you're probably
9 going Australian dollar to U.S. dollar to Philippine
10 peso. There's more steps involved. You have more
11 exchange rates involved. There's more fees involved and
12 less efficiency of that corridor is not as good as
13 dollar/yen, to compare it to my earlier contrast.

14 That's a very long-winded way of saying to
15 answer your question depends a lot on which currency pair
16 we're talking about.

17 Q For some currencies, is it more -- do you have
18 cost -- is it more cost-effective to use xRapid than
19 traditional rails?

20 A That is my understanding, yes.

21 Q And are those cost savings related to
22 pre-funding?

23 A One of the cost savings from xRapid is
24 mitigating the need to pre-fund.

25 Q And are there cost savings related to FX costs?

1 A Depending upon the corridor, yes.

2 Q And which corridors provide cost savings?

3 A I don't have that information at the top of my
4 head.

5 Q Has Ripple ever quantified the cost savings
6 from using xRapid?

7 A Yes, Ripple has done analyses associated with
8 the cost savings of using xRapid.

9 Q And what analyses has Ripple done to quantify
10 the cost savings?

11 A We have -- I mean, maybe I -- if you could
12 clarify the question only that I can't regurgitate the
13 reports top of mind.

14 Q How much did Ripple say that customers could
15 save from using xRapid?

16 A I don't recall exactly what we have said in
17 that regard, but I know that we have published reports
18 with customers and customers have commented about their
19 savings.

20 Q Has Ripple ever publicly claimed that xRapid
21 saves customers 40 to 70 percent in costs?

22 A I don't know. I think that is possible, yes,
23 although I'm not sure that that's something that Ripple
24 claimed but I think it's something that a customer has
25 claimed.

1 Q Have you ever claimed that xRapid saves
2 customers 40 to 70 percent in costs?

3 A I don't recall.

4 Q You said that Ripple has done some analysis
5 related to the amount of cost savings. Who at Ripple has
6 done this analysis?

7 A I don't know that there is a single name behind
8 that but certainly a number of groups would be involved
9 in that ranging from marketing, I would imagine sales
10 might have some input in that and finance to make sure
11 that we're -- there is a data team. I don't know that
12 there is one person, but understanding the efficacy of
13 the product with our customers is obviously important so
14 you have a number of different groups involved.

15 Q And when do people start -- during what time
16 period did people at Ripple do that analysis?

17 A Contemporaneously with the launch of those
18 products, of the xRapid product.

19 Q Did you review the results of that analysis at
20 any point in time?

21 A I don't recall, but I would imagine I did.

22 Q And what were the results of the analysis?

23 A I don't recall.

24 Q Did the analysis include that xRapid saves
25 customers money?

1 A I believe so.

2 Q Did it provide a quantifiable amount of cost
3 savings?

4 A I believe so.

5 Q And what was that amount?

6 A I don't know.

7 Q Was it in the range of 40 to 70 percent?

8 A I don't recall.

9 Q And the analysis that was provided, was that
10 written or oral?

11 A I would imagine that it was written.

12 Q And was that analysis discussed with other
13 people at Ripple?

14 A I don't recall.

15 Q Did that analysis take into account payments
16 that Ripple provided customers in connection with their
17 use of xRapid?

18 A I don't know.

19 Q Does Ripple charge any fees for its xRapid
20 product?

21 MR. CERESNEY: You mean for the actual
22 transactions or do you mean like the software product?

23 BY MS. WAXMAN:

24 Q I'll ask a different question.

25 Does Ripple receive any revenues from the

1 xRapid product?

2 A I believe that typically in onboarding an
3 xRapid customer, we might have some small onboarding, you
4 know, fees of getting people launched, but relatively de
5 minimis.

6 Q How does Ripple make money from the xRapid
7 product?

8 A Well, I mean, as you were just asking, to the
9 extent we are charging fees for integration or what have
10 you, there would be some de minimis amount of revenue
11 there. Ultimately we think about the value creation of
12 xRapid as driving the liquidity in the XRP markets.

13 Q I'm not sure I understand your answer. How
14 does Ripple make money from xRapid, if at all?

15 A We make de minimis amounts of money from xRapid
16 directly.

17 Q Does Ripple benefit from xRapid indirectly?

18 A I don't know.

19 Q Other than xRapid, does Ripple promote any
20 other product that uses XRP?

21 A No. I mean -- no.

22 Q Is it your testimony that you don't know what
23 other benefits the company gets from its xRapid product?

24 MR. CERESNEY: Are you talking about current
25 benefits as opposed to future?

1 BY MS. WAXMAN:

2 Q At any time.

3 A Yes, that is my testimony.

4 Q Does xRapid -- does use of xRapid increase
5 demand for XRP?

6 A Not to which I'm aware, no.

7 Q Why not?

8 A If you go back to the discussion we had about
9 the mechanics of how an XRP -- an ODL transaction happens
10 through XRP, you're creating demand and supply kind of in
11 lockstep. And so in some manners, it's neutral to supply
12 and demand.

13 Q Are you talking about on a per-transaction
14 basis?

15 A Yes.

16 Q I'm talking overall, was there an understanding
17 that increasing ODL volume would increase demand for XRP?

18 A No.

19 Q Did anyone at Ripple understand that an
20 increase in ODL volume would cause an increase in XRP
21 demand?

22 A Not of which I'm aware.

23 MR. SOLOMON: Daphna, we're getting close to
24 12:30. I don't know whether this is a good stopping point
25 or --

1 MS. WAXMAN: Just a few more minutes.

2 BY MS. WAXMAN:

3 Q Why did Ripple promote xRapid? You said it
4 received de minimis revenues from the product itself, but
5 I don't understand why the company would continue to sell
6 and promote the product?

7 A As I testified earlier, one of the overarching
8 goals for Ripple has been to drive liquidity and trust
9 and utility of XRP. In this case, xRapid, now known as
10 On-Demand Liquidity, certainly drives the liquidity of
11 XRP and increases liquidity of XRP between Mexican peso
12 and XRP and dollar and XRP, as described.

13 It's my belief that the more we are successful
14 over a long arc of time in driving liquidity of XRP, the
15 better that is in driving value across the XRP ecosystem.

16 Q When you talk about value, what do you mean?

17 A Value comes in various shapes and sizes. You
18 know, the value is in the savings to a customer. You
19 know, there is value to a xRapid or On-Demand Liquidity
20 customer not needing to pre-fund. There is -- so, I
21 mean, the holistic view of what derives value.

22 Q When you talk about value, are you referring to
23 XRP's price in the market?

24 A That is one factor of what -- price is one
25 measure of value.

1 Q What role do market makers play in connection
2 with xRapid?

3 A One important element of xRapid as we've talked
4 about is liquidity and -- sorry, xRapid or On-Demand
5 Liquidity. One important aspect is liquidity and to the
6 extent we are trying to send payments through On-Demand
7 Liquidity into another currency using XRP where there
8 isn't liquidity, then we have a problem in solving that
9 customer problem. We would be challenged to solve that
10 customer problem.

11 Of course the more liquid that currency pair
12 is, the tighter the spread and the tighter the spread,
13 the more efficiency in the pricing to a customer, quote
14 versus execution. So Ripple has partnered with market
15 makers in a number of different currencies to help make
16 sure as we bring customers on, to make sure that those
17 markets are as liquid as possible and the pricing is as
18 efficient as possible.

19 Q Do the market makers provide services to
20 tighten spreads?

21 A That's said very well.

22 Q And are they tightening spreads on receive
23 exchanges?

24 A Yes.

25 Q And did Ripple enter into agreements with

1 market makers in connection with these services?

2 A In connection with which services, On-Demand
3 Liquidity?

4 Q Yes.

5 A Yes.

6 Q And were you involved in negotiating or
7 approving those agreements?

8 A Was I involved in negotiating those agreements?
9 No. Was I involved in approving those agreements? Yes.

10 Q And what were the terms of those agreements?

11 A I don't know.

12 Q Did they involve a flat fee for services?

13 A Some do, yes.

14 Q Do some involve variable fees?

15 A Yes.

16 Q And what are those variable fees?

17 A I don't know top of mind.

18 Q Do the market makers stand ready to purchase
19 XRP in exchange for a fiat on receiving exchanges?

20 A Yes.

21 Q Is that one of the services that you contract
22 with them for?

23 A Yes.

24 Q Is there sufficient liquidity on ODL receive
25 exchanges absent, you know, the presence of market

1 makers?

2 A Depends on which corridor we're talking about,
3 which currency pair we're talking about, but to my
4 knowledge, the most consequential one of those is Mexican
5 peso and no is the answer.

6 Q So what would happen if market makers were not
7 engaging in these services?

8 A You wouldn't have the liquidity in the exchange
9 to complete customer -- ODL customer transactions.

10 Q So xRapid would not function properly?

11 A Correct.

12 Q The transaction could not be completed because
13 there would be no person who would be willing to buy XRP
14 in exchange for the local fiat currency?

15 A Actually, I would not say that. What you would
16 probably have is very wide spreads, and you would
17 actually reduce the efficiencies of these markets. And,
18 you know, your question I think was you would have no
19 buyer -- I think what you would find is you would have a
20 buyer at some price but it would actually decrease the
21 efficiency of the market to not have market makers there.

22 Q Would that result in more costs for Ripple in
23 connection with the xRapid product? So earlier we talked
24 about the fact that Ripple pays guarantees for certain
25 rates. So would the lack of market makers, you know, make

1 the xRapid product more costly for Ripple?

2 A What it would probably mean is we would just
3 dramatically slow the growth and usage of the products
4 such that the volume was commensurate with the available
5 liquidity. So that would dramatically constrain our
6 ability to grow until liquidity grew more naturally.

7 Liquidity is growing naturally in these
8 markets. The demand for On-Demand Liquidity is growing
9 faster than that and in some cases, as I think we've said
10 publicly and certainly you're aware of, we have actually
11 throttled the demand for On-Demand Liquidity because
12 liquidity in markets is not ready to handle that level of
13 volume.

14 Q Do you know what I mean when I talk about order
15 flow imbalance?

16 A Conceptually, yes.

17 Q Is there an order flow imbalance with XRP ODL
18 order flow?

19 A I don't know.

20 Q Is the order flow one-sided? In other words,
21 are there more people sending money to Mexico than back,
22 you know, than people sending money from Mexico to the
23 United States?

24 A Is the question whether there is a remittance
25 order flow imbalance between dollar and peso?

1 Q Yes.

2 A Yes.

3 Q Does that create any issues for the xRapid
4 product?

5 A No, not really.

6 Q Why not?

7 A What we care about with xRapid product, is
8 there liquidity between Mexican peso and XRP and maybe --
9 in this case, dollar and XRP.

10 MR. SOLOMON: Daphna, sorry, I'm just going to
11 interject again. Are you sort of winding up?
12 Otherwise -- I don't have to go too long on an empty
13 stomach without a break.

14 MS. WAXMAN: No problem. I have a couple more
15 questions about market makers and then we can take a
16 break.

17 MR. SOLOMON: Thank you.

18 BY MS. WAXMAN:

19 Q Did Ripple provide fiat loans to market makers?

20 A Yes.

21 Q What was the purpose of the fiat loans?

22 A To provide working capital -- well, I mean,
23 maybe -- I don't know exactly.

24 Q Do you have a general understanding of the
25 purpose of the loan?

1 A To provide working capital for them to have
2 liquidity in a market.

3 Q How does the market maker use the loan?

4 A I don't know exactly.

5 Q Is the market maker using the loan to purchase
6 local fiat currency which they could subsequently sell
7 for XRP on the receive end of an ODL transaction?

8 A I expect, yes.

9 Q And where does the market maker get the local
10 fiat?

11 A I don't know.

12 Q Does it use traditional rails to exchange --

13 A I --

14 Q -- to get the local fiat?

15 A I don't know how they're sourcing the local
16 fiat.

17 Q Do they use traditional brokers to exchange, to
18 get the local fiat that they're going to sell in exchange
19 for XRP?

20 A I don't know.

21 Q Does Ripple loan market makers XRP?

22 A Yes.

23 Q And why does it loan XRP to market makers?

24 A To provide -- I mean, not -- dissimilar than
25 why -- we would provide loans in fiat, provide balance

1 sheet capabilities for market makers to provide liquidity
2 between XRP and fiat currency pairs.

3 Q Do you have a more specific understanding of
4 the purpose of the XRP loans?

5 A No.

6 Q How much does the xRapid product cost Ripple
7 overall?

8 A I don't know.

9 Q We spoke about costs related to market makers.
10 We spoke about what costs does it incur related to
11 customers. We spoke about guarantees, but does Ripple
12 incur any other costs related to xRapid in relation to
13 customers?

14 A Yes.

15 Q What costs?

16 A We employ numerous people that build, support,
17 and otherwise enable On-Demand Liquidity to function, as
18 one example.

19 Q Sorry. I'll be more specific. What does
20 Ripple pay to customers to use xRapid?

21 A Oh, are you asking about xRapid -- sorry,
22 On-Demand Liquidity incentives?

23 Q I understand that that's one of the payments or
24 one of the costs associated with xRapid. Are there other
25 costs other than incentives?

1 A Well, there's market maker costs. You know,
2 there's -- you know, I'm trying to think. There is
3 certainly incentive costs, market maker costs. I think
4 I'm forgetting what other costs are built into our
5 analysis of how we look at that, but I think that gives
6 you a pretty good picture.

7 Q Does Ripple provide rebates or guarantees to
8 customers?

9 A I would lump that into the incentive picture.

10 Q But are those distinct, the rebates and the
11 incentives? Are those different payments?

12 A I guess I maybe just simplistically think about
13 them as, to the extent it's a rebate or incentive, it's a
14 payment to a customer and so I think about them in the
15 same bucket.

16 Q And are those payments meant to subsidize
17 customers' costs?

18 MR. SOLOMON: Hey, Daphna, it seems that we've
19 moved off market makers at this point. I really think it
20 is time we take a break.

21 MS. WAXMAN: I just want him to answer this
22 question.

23 THE WITNESS: Go ahead. Please repeat the
24 question.

25 BY MS. WAXMAN:

1 Q Are the payments to customers meant to
2 subsidize their costs?

3 A The payments to customers are meant to
4 incentivize activity on the network, activity -- I think
5 any time you're starting a network, you're trying to have
6 a flywheel start moving and, as I described earlier, the
7 more liquidity going into a market, the tighter the
8 spreads you're going to see exist.

9 Before there is any liquidity, you need to
10 jumpstart that flywheel. And so, as is the case with
11 many other payment network types of players, Ripple has
12 used incentives to get that flywheel started.

13 Q Do the incentives play any role in connection
14 with -- play any role in subsidizing costs?

15 A I mean, I think yes.

16 Q How?

17 A Incentives -- well, incentives by definition is
18 an offset to a cost. And to the extent you're giving
19 someone money -- I guess I'm not -- I certainly don't
20 want to be argumentative. I'm not tracking the question
21 exactly.

22 MS. WAXMAN: That's fine.

23 It's 12:44. Why don't we take a lunch break.

24 Matt, is 45 minutes okay?

25 MR. SOLOMON: Yes, that would be just fine.

1 MS. WAXMAN: We'll come back at 1:30. We're
2 off the record. Thank you.

3 (Whereupon, at 12:44 p.m., a luncheon recess
4 was taken.)

5 A F T E R N O O N S E S S I O N

6 MS. WAXMAN: It's 1:33. We're back on the
7 record.

8 BY MS. WAXMAN:

9 Q Mr. Garlinghouse, while we were off the record,
10 did you have any conversations with the SEC staff?

11 A No.

12 MS. WAXMAN: Counsel, will you please confirm?

13 MR. CERESNEY: Yes, we can confirm.

14 MS. WAXMAN: Counsel, did you want to make a
15 statement on the record?

16 MR. SOLOMON: Yeah, just a point of
17 clarification. It's not for me to make a statement, Mr.
18 Garlinghouse will.

19 But there were a series of questions and one
20 about confusion between XRP and Ripple, and you asked Mr.
21 Garlinghouse a series of questions over a time about that
22 confusion and I think it might be helpful to you if he
23 just gives you an answer specifying the different time
24 periods, because I think that was left quite ambiguous.

25 And the second thing was because, again, there

1 were very broad questions and he was giving sort of a
2 very general answer was with respect to the ODL product,
3 you were asking about that product's profitability now,
4 and I think that obviously he has a different view of
5 what the profitability may be down the line and I think
6 it would be useful for you to hear just a complete
7 narrative on that so you have a full and accurate answer.

8 So I would like to just give him an opportunity
9 to address those things. And obviously if you have
10 follow-up questions following that, you should ask him.

11 Go ahead.

12 THE WITNESS: So I'll do those in reverse
13 order.

14 The way I was interpreting the set of questions
15 about ODL, I think you were asking, well, how do we
16 charge, how does anybody go about creating value around
17 that. I suppose one of the -- depending on your
18 perspective -- blessings and curses of being in Silicon
19 Valley is you're always thinking about where the world is
20 going and willing to forgo short-term benefit for
21 long-term value creation.

22 When I think about ODL, I don't spend as much
23 time thinking about, hey, how much are we charging on a
24 per customer basis today. As we discussed, it's de
25 minimis. What I think about is if we are successful in

1 driving potentially trillions of dollars in cross-border
2 flows through ODL, how we price and how we take advantage
3 of that as a company in years 5 through 10 through 15 I
4 think are very hard to predict and, you know, I think
5 part of the journey of being an entrepreneur in Silicon
6 Valley is letting the journey go. And if you're in a
7 position of strength, then you're able to monetize that
8 in the future.

9 The best example maybe I can point to, for
10 many, many years Google had zero monetization engine but
11 was the best search engine out there, and obviously it
12 became the de facto search engine of the Internet. And
13 then they started to monetize that and obviously the rest
14 of the story I don't think I really need to tell.

15 I'll pause on that one and then go to the other
16 I think potential point of confusion.

17 MR. SOLOMON: Do you have any follow-up
18 questions on that, Ms. Waxman?

19 MS. WAXMAN: I do not.

20 THE WITNESS: The second thing I think is worth
21 clarifying because I think maybe I created confusion, I
22 do think without a doubt there has been, historically, an
23 immense amount of confusion between what is Ripple and
24 what is XRP. I think that has gotten dramatically better
25 over time because Ripple has sought to clarify that

1 consistently over a long period of time. I think it was
2 three -- I used the example of CoinMarketCap and I think
3 it was over three years ago that we were successful in
4 getting them to switch, and they, as an important
5 indicator, have helped clarify that over time. And I
6 think we're in a much better place today about the
7 understanding of what is Ripple and what is XRP than
8 where we were, you know, five years ago when I joined the
9 company.

10 BY MS. WAXMAN:

11 Q Okay. Thank you very much. I don't have any
12 follow-up questions.

13 A Okay.

14 Q Did Western Union pilot xRapid?

15 A Yes.

16 Q And when did they pilot xRapid?

17 A I would guess around two years ago. By the
18 way, I also, just as a small -- as we talked about
19 earlier how we define pilot versus a beta versus a test,
20 I think are all a little bit amorphous, but for --
21 Western Union definitely did a test of an early version
22 of the xRapid product.

23 Q Did you get any feedback from Western Union in
24 connection with their test?

25 A The only feedback I'm aware of is what I read

1 publicly. The CEO of Western Union I believe is on
2 record saying that they -- the usage of what we now call
3 ODL was -- there were not cost savings and it matched
4 their existing -- you know, it was equal to their
5 existing Treasury efficiency.

6 Q Did you ever learn from anyone from within the
7 company about feedback from Western Union?

8 A From within Western Union or from within
9 Ripple?

10 Q Either. You said that you had heard -- you
11 knew about public feedback that Western Union had made
12 about the pilot. But my question is, did you hear -- did
13 you have any other -- did you hear about any feedback
14 from Western Union from inside Ripple or directly from
15 Western Union?

16 A No, I'm not aware that I received any -- I
17 don't recall receiving any feedback. I think the
18 internal commentary based upon Hikmet, the CEO of Western
19 Union's public, statements, was actually one that felt
20 like, okay, if a beta product of On-Demand Liquidity had
21 matched the Treasury efficiency that they had developed
22 over decades, we actually felt like that was a huge win
23 that he would say we had, you know, that matched what
24 they were already doing so they didn't see -- you know, I
25 viewed that as a very positive statement for us.

1 Q So was it your understanding that they didn't
2 incur any cost savings because the xRapid product matched
3 their already existing efficiencies?

4 A That's my understanding.

5 Q Not because using the product was more
6 expensive?

7 A I'm not sure I'm --

8 Q Strike that.

9 A All right.

10 Q What is MoneyGram?

11 A MoneyGram is a publicly traded remittance
12 company that competes with, amongst others, Western
13 Union.

14 Q And what is MoneyGram's relationship to Ripple?
15 Or what is Ripple's relationship to MoneyGram?

16 A Ripple is an investor in the company. We are a
17 partner with them in context of On-Demand Liquidity. I
18 believe we have a board observer seat at the company.
19 Those are a handful of dynamics of the relationship.

20 Q When did Ripple become an investor in
21 MoneyGram?

22 A I believe the deal closed in June of last year.

23 Q Did you have any involvement in that deal, and
24 what was your involvement?

25 A Yes, I had involvement and I was certainly

1 actively involved in getting the deal kind of moving in
2 the macro construct and, during that course, throughout
3 the, you know, a point of contact with the CEO of
4 MoneyGram.

5 Q Did you negotiate the actual terms of the
6 investment?

7 A I would say I negotiated the macro construct of
8 the terms but not the actual terms that resulted in the
9 agreement that was ultimately consummated between the
10 companies.

11 Q Did you approve the final terms of the deal, of
12 the investment?

13 A Yes.

14 Q You said that MoneyGram is an ODL partner. Did
15 Ripple enter into a commercial agreement with MoneyGram
16 to use ODL?

17 A Yes, I believe so.

18 Q And did you have any involvement in either
19 negotiating that agreement or approving that agreement?

20 A Well, I would suspect as -- you know, that
21 partnership -- I mean, I don't know that I called it a
22 partner of ODL or a customer of ODL. My recollection is
23 that we entered into those deals contemporaneously and I
24 would imagine that they were approved together.

25 Q When you entered into the deals

1 contemporaneously, were they contingent on one another?

2 A I don't -- I mean, I interpret that question as
3 kind of a legal question of contingency and I don't know
4 the answer.

5 Q Would Ripple have invested in MoneyGram if it
6 didn't agree to enter into the commercial agreement?

7 A Probably not.

8 Q And why not?

9 A Ripple is not an investment entity. You know,
10 we're not a Berkshire Hathaway. And so we think about
11 leveraging our balance sheet in a way to benefit trust,
12 liquidity and utility across XRP.

13 Q So why was the commercial agreement an
14 important part of the deal with MoneyGram?

15 A I think, you know, by the time we signed
16 MoneyGram, we had a number of other customers, commercial
17 customers, not test customers, using ODL, but it was also
18 still very much early days. Having a scaled customer
19 allows us to go to an exchange like Bitso, market makers,
20 and say, hey, we know that we're going to have
21 significant volume and we can start -- I described
22 earlier, you know, part of that entrepreneurial journey
23 is getting the flywheel moving. And by getting MoneyGram
24 flows, we could actually go to the various participants
25 and know that this isn't hypothetical. This is real.

1 Q So was it -- in your opinion, did the
2 partnership with MoneyGram and MoneyGram's use of ODL
3 provide evidence of actual use and demand for the xRapid
4 product?

5 A I think it was certainly evidence of use
6 because they are using it, and I think they've had over a
7 billion dollars of flows. I suppose -- well, I think it
8 certainly is demonstrative of use. And as we have scaled
9 it, we certainly have learned in terms of how to scale it
10 efficiently and a way that reduces the incentives over
11 time to frankly all the participants, whether it be
12 MoneyGram or market makers.

13 Q You said you could take the information that
14 MoneyGram was using ODL and take that back to exchanges.
15 Was this information that was also relevant to XRP
16 holders or XRP purchasers?

17 A I don't know.

18 Q Did you publicly comment on Ripple's
19 relationship with MoneyGram, the investment and/or the
20 agreement to use ODL?

21 A Yes.

22 Q And why did you comment on it publicly?

23 A Well, by announcing a named partner like
24 MoneyGram, as you already know, Western Union kind of
25 picks up their ears and says, oh, we should be talking to

1 them. You know, getting other customers in the Americas
2 signed up, you know, we want to talk about the momentum
3 we have in getting customer usage and demonstrate that
4 the ability to use some of these capabilities are not --
5 have gone beyond just experiments but to enabling real
6 flows.

7 Q Did you want to create momentum by XRP holders
8 or momentum for people who were looking to buy XRP on the
9 secondary market?

10 A No.

11 Q Why not?

12 A That wasn't my goal. I don't think we see the
13 relationship between what's going on with ODL and XRP at
14 those two things -- you're asking me to correlate two
15 things I don't see as correlated.

16 Q Did you think there was a relationship between
17 an increase in ODL use and fluctuations in XRP's price?

18 A Did I think there is a relationship between
19 fluctuations in XRP and ODL usage, is that the question?

20 Q I'll ask another question.

21 Did you think that increased demand for xRapid
22 would increase the demand for XRP?

23 A No. As we discussed earlier today, that
24 increased demand for XR -- or the usage of ODL is neutral
25 in terms of demand for XRP.

1 Q Right. We discussed that that's on a
2 per-transaction basis. But in general, did you
3 understand or did anyone or did you believe that an
4 increase in demand for xRapid would increase the demand
5 for XRP and therefore --

6 A No.

7 Q What were the terms of the commercial agreement
8 with MoneyGram, generally?

9 A Yeah, I mean, we -- I mean, it's been a while.
10 Let's see. I think we invested I think a total of \$50
11 million in two tranches or roughly 20 percent of the
12 company in equity and warrants and got a I think board
13 observer seat and like -- there is no -- and a structure
14 of incentives for usage of ODL that scales based upon
15 volume.

16 Q When you say the incentives scaled based upon
17 volume, was the incentive structure structured to
18 incentivize more volume up front?

19 When I say up front, I'm talking about at the
20 beginning of the relationship.

21 A I don't know. Our general thesis with
22 incentives is to have some incentive to get live quickly
23 and to get things moving as quickly as possible and then
24 to have a declining scale of incentives as volumes grow.

25 Q And why did you set up the incentive structure

1 like that?

2 A Our goal is typically to get people live as
3 quickly as possible and to get some volume as quickly as
4 possible. As volumes grow, the flywheel is now moving,
5 and so it allows us to start reduce incentives and
6 ultimately, our expectation is eliminate incentives.

7 Q Prior to signing on MoneyGram, how much volume
8 was going through xRapid?

9 A I don't know.

10 Q What impact did the partnership with MoneyGram
11 have on ODL volume?

12 A It had a significant increase in ODL volumes.

13 Q Do you know what percentage MGI's ODL volume is
14 of the total ODL volume?

15 A I do not.

16 Q Is it more than 50 percent?

17 A I think it probably depends on which time
18 period we're talking about.

19 Q Well, when did MoneyGram begin to use ODL?

20 A As I mentioned, I believe we signed the deal in
21 June. I think they went live in August or September.
22 And, you know, material volumes I think started to ramp
23 in late Q4.

24 Q At the time that MoneyGram's volume peaked,
25 what percentage of ODL volume was MoneyGram transactions?

1 A Certainly it was more than 50 percent.

2 Q Was it close to 95 percent or above?

3 A I don't know. I also would point out it
4 depends how you measure these things, are by notional
5 value or by number of transactions. Did they use it for
6 corporate treasury flows or other customers use it for
7 lower remittances, and so we think primarily about number
8 of transactions, not necessarily notional volume.

9 Q Under both measures, what was -- how did the
10 volume that MoneyGram contributed compare to the volume
11 from other ODL customers in the aggregate?

12 A I'm certain that MoneyGram was the majority.

13 Q I want to ask you to locate the UPS package and
14 if you wouldn't mind, opening it up on camera for me.
15 There should be two binders. They're both in sealed
16 envelopes. One is for counsel and one is for you to take
17 a look at.

18 A There has to be a simple way to open these.
19 Here. Oh, there it is. This feels like A New Deal.

20 Q There is no money in there, I promise you that.

21 MR. CERESNEY: It's just gold.

22 THE WITNESS: XRP.

23 BY MS. WAXMAN:

24 Q A lot of private keys.

25 MR. CERESNEY: Yeah. Is it a web or go?

1 BY MS. WAXMAN:

2 Q It's certainly suspenseful, isn't it?

3 Do you have two envelopes, one for Matt, one
4 for yourself?

5 A Just one large envelope so far.

6 Q Okay. Well, then there are probably two
7 binders in there.

8 A Yeah, there are.

9 MR. CERESNEY: Are you going to share this on
10 the screen as well?

11 MS. WAXMAN: I can, sure. It's a pretty -- you
12 know, the documents are long but I can.

13 MR. CERESNEY: Why don't you just share the
14 relevant page.

15 MS. WAXMAN: Okay. I will once I introduce it
16 on the record.

17 MR. CERESNEY: That's fine.

18 (SEC Exhibit No. 134 was marked for
19 identification.)

20 BY MS. WAXMAN:

21 Q So I would like you to take a look at Exhibit
22 134. It's a long document. And I'll direct you to the
23 pages that I'm most interested in and then I'm going to
24 ask you some questions about it.

25 I would like you to take a look at pages 1

1 through 24, and there are page numbers at the top of the
2 document but there is also page numbers down in the
3 middle. So I'm talking about the page numbers at the top
4 right.

5 A Okay.

6 Q Take a look at pages 1 through 24 and
7 specifically page 3 through 7, and then if you skip over,
8 page 15 through 24. And take as much time as you need.

9 A Just so I understand the -- I didn't quite
10 follow which pages. So page 3 through 7 and 15 through
11 24 is where I should read?

12 Q Yes. Those are the pages I'm going to ask you
13 questions on.

14 A Okay.

15 Q This is a -- there is some technical
16 information in here, some accounting information. I'm
17 not going to ask you any technical accounting questions,
18 so any part of that document you can just stipulate over.

19 A Okay. I will start reading here.

20 Q Okay. And I'll share it on the screen for
21 anyone who wants to read it.

22 MR. CERESNEY: Thank you.

23 MS. WAXMAN: If you need me to scroll down --
24 for the people who are reading on the screen, if you need
25 me to scroll, let me know.

1 MR. CERESNEY: If you could go to the next
2 page.

3 MS. WAXMAN: I'm sorry, did you ask me to
4 scroll down?

5 MR. CERESNEY: Yes, please, the next page. And
6 now to page 3, which is the next page you're asking
7 about.

8 If you can go to the next page. Go to the next
9 page. And if you can go to the next page.

10 MS. WAXMAN: Do you want me to scroll?

11 MR. CERESNEY: Yeah, that would be great.

12 BY MS. WAXMAN:

13 Q Mr. Garlinghouse, let me know when you're done.

14 A I'm done with the section through -- I'm now
15 reading the sections 15 through 24.

16 Q Okay.

17 A As you pointed out, there are some accounting
18 mumbo jumbo. I -- I think you were okay with me skipping
19 some of that?

20 Q Yeah. I don't intend to ask you any questions
21 about the accounting reference in the document. I
22 really -- I'm going to ask you some questions about pages
23 20 through 24 and then pages 15.

24 MR. CERESNEY: If you can go to page 15 on the
25 screen, that would be good. If you can go down, that's

1 great.

2 MS. WAXMAN: I don't intend to ask about the
3 bottom.

4 MR. CERESNEY: 25, I guess, the next page?

5 MS. WAXMAN: Sure.

6 MR. CERESNEY: Great.

7 MS. WAXMAN: Do you want it bigger or smaller?

8 MR. CERESNEY: It's fine. Yeah, great.

9 THE WITNESS: I think I have a pretty good
10 review. I might ask to re-review based upon the questions
11 but I think I'm ready.

12 MS. WAXMAN: Okay.

13 MR. SOLOMON: Just, before you get started, I
14 just wanted the record to reflect that the complete
15 document is about 68 pages long. He's taken now maybe 10
16 minutes to review the portions of the document you've
17 asked him to focus on but he has not had an opportunity
18 to review the other 58 or so pages of this document.

19 MS. WAXMAN: Okay. I'll just state for the
20 record pages 25 through 68 reference the Ripple master
21 hosted service agreement between Ripple and the company
22 and its various amendments and attachments. The actual,
23 you know, document itself is 24 pages. And if it's okay,
24 I'm going to -- would you like me to continue to share my
25 screen or are you okay with copies in the room?